



INDEPENDENT  
MARKET  
OPERATOR

## Gas Advisory Board Minutes

<b>Meeting No.</b>	14
<b>Location</b>	IMO Board Room Level 17, Governor Stirling Tower, 197 St Georges Terrace, Perth
<b>Date</b>	Tuesday, 18 February 2014
<b>Time</b>	3.10pm – 5.10pm

<b>Attendees</b>	<b>Class</b>	<b>Comment</b>
Allan Dawson	Chair	
Kate Ryan	Independent Market Operator (IMO)	
John Jamieson	Pipeline Owner/Operator	
Mark Cooper	Pipeline Owner/Operator	
Mike Shaw	Large Gas User	
Pete Di Bona	Gas Producer	
Stewart Gallagher	Gas Producer	
Andrew Sutherland	Gas Shipper	
Carole Clare	Gas Shipper	Proxy (3:10pm – 4:10pm)
Bryon McLaughlin	Coordinator of Energy	Proxy
Natalia Kostecki	Small End Users, Minister's Appointee	Proxy
Matthew Martin	Minister's Appointee – Observer	Proxy
Michael Reid	Economic Regulation Authority – Observer	Proxy (3:10pm – 4:30pm)
Erin Stone	IMO	Presenter
Trent Morrow	Market Reform	Presenter
Paul Hynch	Public Utilities Office (PUO)	Observer
Michael Smythe	Alinta	Observer
Chris Campbell	Alinta	Observer
Jacinda Papps	Synergy	Observer
Allan MacDougall	Gas Trading	Observer
Joachim Tan	IMO	Observer
Rebecca Denton	IMO	Observer
Martin Maticka	IMO	Observer
Laura Koziol	IMO	Observer
Courtney Roberts	IMO	Minutes

Apologies	Class	Comment
Aden Barker	Small End Users, Minister's Appointee	Proxy attended
Nerea Ugarte	Minister's Appointee – Observer	Proxy attended
Elizabeth Walters	Economic Regulation Authority – Observer	Proxy attended
Stan Reid	Gas Shipper	Proxy attended
Ray Challen	Coordinator of Energy	Proxy attended

Item	Subject	Action
1.	<p><b>WELCOME</b></p> <p>The Chair opened the meeting at 3:10 PM and welcomed all members to the 14th Gas Advisory Board (GAB) meeting.</p>	
2.	<p><b>MEETING APOLOGIES / ATTENDANCE</b></p> <p>The following apologies were received:</p> <ul style="list-style-type: none"> <li>• Ray Challen (Coordinator of Energy);</li> <li>• Aden Barker (Small End User);</li> <li>• Stan Reid (Gas Shipper); and</li> <li>• Vacant (Economic Regulation Authority - Observer).</li> </ul> <p>The following proxies were noted:</p> <ul style="list-style-type: none"> <li>• Bryon McLaughlin for Ray Challen (Coordinator of Energy);</li> <li>• Natalia Kostecki for Aden Barker (Small End User);</li> <li>• Carole Clare for Stan Reid (Gas Shipper);</li> <li>• Michael Reid for Vacancy (Economic Regulation Authority – Observer); and</li> <li>• Matthew Martin for Nerea Ugarte (Minister's Appointee – Observer).</li> </ul> <p>The following presenters/observers were noted:</p> <ul style="list-style-type: none"> <li>• Chris Campbell (Alinta);</li> <li>• Michael Smythe (Alinta);</li> <li>• Jacinda Papps (Synergy);</li> <li>• Allan MacDougall (Gas Trading);</li> <li>• Paul Hynch (PUO);</li> <li>• Trent Morrow (Market Reform);</li> <li>• Joachim Tan (IMO);</li> <li>• Erin Stone (IMO);</li> <li>• Rebecca Denton (IMO);</li> <li>• Laura Koziol (IMO);</li> <li>• Martin Maticka (IMO); and</li> <li>• Courtney Roberts (IMO).</li> </ul>	
3.	<p><b>MINUTES OF PREVIOUS MEETING</b></p> <p>The minutes of GAB Meeting No. 13, held on 17 December 2014 were circulated prior to the meeting.</p> <p>No further comments were raised and the minutes of the previous meeting were accepted as a true record.</p>	
4.	<p><b>ACTIONS ARISING</b></p> <p>Ms Kate Ryan provided the GAB with an update on the current outstanding action items and noted that the outcomes of the Emergency Management Facility test will be presented to stakeholders at the public forum due to be held on 4 March 2014.</p>	

**5a. GPRC\_2014\_01: GSI FEE ARRANGEMENTS**

The Chair introduced Dr Natalia Kostecki to provide an overview of the proposed changes to the Gas Services Information (GSI) fee arrangements.

Dr Kostecki noted that the current arrangements placed the GSI fees on Registered Shippers and that, when the GSI Rules were finalised the Minister for Energy requested that fees also be applied to Registered Production Facility Operators to spread the costs across all GSI beneficiaries. However, the Minister did not want to delay the GSI Rules being finalised to do so.

Dr Kostecki also noted that initially the Public Utilities Office (PUO) submitted the Rule Change Proposal into the Standard Rule Change Process. After discussion with the IMO, the PUO considered it prudent for the proposal to be discussed by GAB as a pre Rule Change Proposal as it did not contain specific information with respect to how the fees would be apportioned and would therefore not allow sufficient consultation on the methodology.

Dr Kostecki provided an overview of the pre Rule Change Proposal. The Chair requested the GAB to provide advice on the principle of the changes proposed and assist with the development of an appropriate methodology.

Mr Pete Di Bona noted that the proposed approach was a change from the simple principle that was agreed and adopted in 2012 which was implemented to avoid the administrative complexities associated with allocation of fees and questioned what was driving the changes proposed. Dr Kostecki noted that at the time, the PUO agreed with the approach adopted but noted that the Minister believes that the allocation of the GSI fees should be based on the benefits received, and therefore should also be levied on producers.

GAB members discussed alternative methods that could be considered including:

- allocating costs to all Gas Market Participants as beneficiaries;
- allocating costs 50/50 between shippers and producers;
- allocating costs using a volumetric charge;
- allocating costs equally based on the number of participants;
- funding the costs through the State Government; and
- including the costs in tariffs to pass through to gas consumers.

Mr Di Bona questioned how much it cost to operate the GSI. The Chair noted that it was around \$2 million per annum including the operation of the Gas Bulletin Board (GAB), operation of the Emergency Management Facility, production of the Gas Statement of Opportunities (GSOO), administering the GAB and the amortisation of the GSI implementation costs.

The Chair noted that there was a polarisation of views from GAB members and that it was unlikely that a consensus would be reached. The Chair urged the PUO to propose a clear fee allocation methodology for the further consideration of the GAB.

	<p>The Chair noted that the IMO would be able to model the impacts of any proposed fee allocation model to provide the necessary information for further discussion.</p> <p><i>Action items:</i></p> <ul style="list-style-type: none"> <li>• <i>The PUO to propose a methodology by which to change the allocation of the GSI fees, work with the IMO to model the impacts of the current and proposed arrangements, and present the proposal back to GAB for consideration.</i></li> </ul>	<b>PUO/ IMO</b>
5b.	<p><b>GPRC_2014_02: SUBMISSION OF MEDIUM TERM CAPACITY OUTLOOK</b></p> <p>The Chair introduced Ms Erin Stone to provide an overview of the proposed changes to the GSI Rules for the submission of a Medium Term Capacity Outlook.</p> <p>Ms Stone highlighted that this pre Rule Change Proposal is designed to amend an inconsistency between the GSI Rules and the GSI Procedure in relation to the deadline for the submission of a Medium Term Capacity Outlook. Ms Stone noted that the IMO proposes to amend the GSI Rules to reflect the 6:00 PM deadline in the GSI Procedure to ensure that the obligations are within business hours as intended.</p> <p>Mr Stewart Gallagher questioned whether it would be better reflected using the term 'last working day' rather than 'last calendar day'. Ms Ryan clarified that while it could be submitted ahead of the deadline to do so on a working day, the deadline is for last gas day of the month which need not be a business day.</p> <p>The GAB agreed for the IMO to submit GPRC_2014_02 into the Standard Rule Change Process.</p> <p><i>Action items:</i></p> <ul style="list-style-type: none"> <li>• <i>The IMO to progress GPRC_2014_02 under the Standard Rule Change Process.</i></li> </ul>	<b>IMO</b>
6.	<p><b>DEVELOPMENT OF A WESTERN AUSTRALIAN GAS MARKET</b></p> <p>The Chair introduced Mr Trent Morrow from Market Reform to present a discussion of the options for the development of a gas market in Western Australia (WA).</p> <p>The Chair noted that this presentation was developed in response to an action item from the October 2013 GAB meeting which requested the IMO to develop options for a gas and capacity trading mechanism in WA.</p> <p>Mr Morrow provided an overview of different market models and the different elements underpinning a gas and capacity trading mechanism. Mr Morrow also discussed benefits that could be derived from development of a market in WA.</p> <p>Mr Michael Reid and Mr Chris Campbell questioned what the deficiencies are that have driven the development of alternative options to the current privately operated markets.</p> <p>The Chair noted that in October 2013 the GAB requested that the IMO investigate options for developing a short-term trading market, and</p>	

therefore it was presumed that there was a problem with existing trading arrangements. Mr Campbell noted that it was his view that this was not the case.

GAB members discussed the different options and elements of a gas and capacity trading mechanism:

- Mr Mark Cooper noted that the characteristics in WA are different and questioned how a market would work in a mono-directional, linear system such as WA. Mr Morrow noted that there are different options that would be more efficient than others in WA and noted similarities with Queensland's Wallumbilla supply hub.
- Mr Morrow noted that the introduction of a single, centrally operated gas and capacity trading mechanism would provide additional transparency in the industry. Mr Michael Smythe noted that there is already a significant amount of transparency in the gas industry achieved by the new GBB. Mr Morrow agreed that this is a good source of information about the gas market but noted that the development of a short-term trading mechanism would also provide transparency of pricing to further assist decision making.
- The Chair noted that in a steady state the current trading arrangements may be sufficient. However, considering the volume of contracts expected to end in coming years, there is a greater volume of gas and capacity that will be able to be traded and that the development of a short-term trading mechanism is likely improve the efficiency of this trading. Mr Allan MacDougall agreed that recently there have been periods of high trade in WA as large long term contracts have ended.
- Mr John Jamieson questioned whether the market would be operated on a mandatory or voluntary basis. Mr Morrow noted that the items for discussion were in the context of a voluntary supply hub scheme. The Chair agreed that the IMO was only considering a voluntary trading mechanism at this stage.
- Mr Morrow led a discussion on the potential success factors for a gas market and opened the floor for discussion. Mr MacDougall noted that participation and the volume of transactions were important to the success of a market. Mr Morrow agreed and added that it would be highly dependent on the location of hub and that the proposed structure would need to achieve a good balance.
- Mr Morrow discussed the different options for the development a hub, including a virtual and physical hub, and the potential options for the location of a physical hub. Mr Campbell questioned whether there could be two hubs given the amount of gas traded north of the Mondarra storage facility. Mr Morrow noted that the development of two hubs would reduce liquidity and added that there would need to be further analysis to determine the optimal trading point(s).
- Mr Campbell and Mr Cooper noted that that there would be inherent difficulties with existing contract arrangements under any new market arrangement. Mr Morrow agreed that some arrangements and contracts may be affected but noted that different models will have varying impacts on different participants and should be considered in developing options.
- Mr Morrow discussed the products offered in other markets and

	<p>noted the inherent requirement to standardise contract terms and conditions. Mr Smythe questioned if there was an understanding of the effort to standardise contract terms and other necessary arrangements. Mr Morrow noted it was one of the main activities undertaken as part of the development of the Wallumbilla supply hub and suggested that it took around six months from the concept stage to the first exchange of contracts.</p> <ul style="list-style-type: none"> <li>• Mr Morrow outlined the different product in other markets and questioned whether there was any interest from the industry in a forward market. Mr Di Bona and the Chair noted that a futures market could be considered as a further development opportunity but was not necessary in establishing a trading mechanism.</li> <li>• Mr Di Bona questioned whether there were new regulations required to implement the Wallumbilla supply hub. Mr Morrow noted that there were some changes to allow the regulatory bodies to operate the market and added that there were also some provisions included around market conduct on the basis that it operated more like a financial market.</li> <li>• Mr Campbell questioned how much the development of the Wallumbilla supply hub cost. Mr Morrow noted that it was around \$1.6 million. Mr Cooper questioned where the idea for the Wallumbilla supply hub came from. The general consensus of GAB members was that it was initiated by the Queensland Government in light of the expected changes to gas prices in that state.</li> <li>• Mr Joachim Tan questioned whether there were many financial participants operating in other markets. Mr Morrow noted there haven't been many financial participants to date. Mr Tan questioned whether this was because of limitations in the regulations. Mr Morrow noted that he believed that it was primarily a result of limited futures products available to be used as hedging opportunities.</li> <li>• Mr Morrow provided an overview of possible options for capacity trading. Mr Morrow outlined the options of operational transfers and contractual transfers and noted that operational transfers were primarily for short-term trading and contractual transfers were primarily for long-term trading options. Mr Cooper ruled out contractual transfers on the basis of credit risk for daily spot price transfers would be too onerous.</li> <li>• The Chair asked Mr Jamieson about his experience with the Wallumbilla supply hub. Mr Jamieson outlined some of the issues that APA had experienced and offered to provide an overview at the next GAB meeting.</li> <li>• Mr Morrow noted the bilateral and multilateral gas delivery options. Mr Jamieson noted that the Wallumbilla supply hub is a bilateral approach, similar to what already happens in WA, where the nominations are made in aggregate. Mr Morrow further noted that a multilateral approach is required if anonymity is to be achieved. Mr Cooper noted that anonymity is difficult when there is a single entity at the receipt point. Mr Morrow also noted that the market can net the buy and sell transactions.</li> <li>• Mr Andrew Sutherland questioned how settlement works under a</li> </ul>	
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	<p>bilateral approach. Mr Morrow noted that a bilateral approach requires the buyer and seller to confirm the transaction and can either settle bilaterally or bring the transaction back to the market to be cashed-out and settle any unders and overs, whereas under the multilateral approach this is more automatic and centrally cleared.</p> <ul style="list-style-type: none"> <li>• Mr Sutherland questioned what would happen if there was a failure to supply. Mr Morrow noted that the exchange operator was not a party to the contract and therefore would not be affected. Mr Morrow noted that there are a number of ways to structure the market to address this issue. One is where there is a balancing service provided, although this adds complexity to the market. The other is where it affects the participant's transfers and its unders and overs and therefore the cash-out amount.</li> <li>• Mr Morrow outlined options for other elements of a gas market, including balancing services, market operating services and park and loan services that could be considered.</li> </ul> <p>The discussion returned to the impetus for the discussion of the development of a gas market in WA. Dr KostECKI asked what prompted the request in October 2013 given that it was a significant departure from the scope of the GBB and GSOO. The Chair noted that there was a suggestion that the current arrangements were not sufficient for the industry's requirements. The Chair noted that the former GAB member, Mr Nenad Ninkov and Mr Di Bona were supportive of investigating options for trading. Mr Di Bona agreed that he believed that it would be beneficial and noted that there were a lot of attributes that would benefit participants in the industry. Mr Gallagher agreed.</p> <p>Dr KostECKI asked what the next steps were. The Chair noted that the IMO would develop a proposed market structure and estimate the potential cost for the GAB to consider further.</p> <p>Mr MacDougall noted that the proposal should also consider what is already in place, noting that he believes that the main issue with the current arrangements is the lack of prudential security. Mr MacDougall said that he expected that this was the reason that six of the largest 10 producers did not participate in the current trading market in WA. Mr Sutherland added that independence and governance were also very important.</p> <p>Mr Morrow continued to discuss the remaining elements of a gas market. In particular he outlined the options with respect to the prudential arrangements, settlement process, governance and funding the market, and noted the potential synergies with similar functions for the electricity market.</p> <p>The Chair thanked Mr Morrow for his input and welcomed feedback from GAB members following the meeting. The Chair noted that the IMO would publish Mr Morrow's presentation and talk to Mr Cooper, Mr Jamieson and other interested parties to further inform the development of a proposal and potential cost.</p> <p>The Chair reiterated that the intention of the proposal is to develop a cheap, effective and liquid gas and capacity trading mechanism.</p> <p>Mr Di Bona noted that the presentation was a useful start to the discussion and thanked the IMO and Mr Morrow.</p>	
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	<p><i>Action items:</i></p> <ul style="list-style-type: none"> <li>• <i>Mr Jamieson to present APA's experience with the Wallumbilla supply hub development at the next GAB meeting.</i></li> <li>• <i>The IMO to develop a proposal and associated cost on the basis of the GAB discussion and further discussions with Gas Market Participants, and present it at the next GAB meeting.</i></li> </ul>	<p><b>Mr Jamieson</b></p> <p><b>IMO</b></p>
<p><b>7.</b></p>	<p><b>GENERAL BUSINESS</b></p> <p>Ms Ryan reiterated that a stakeholder briefing will be held on Tuesday, 4 March 2014 which will present the January 2014 GSOO and the outcomes of the Emergency Management Facility test.</p> <p>Ms Ryan also noted the recent resignation of Mr Ninkov as a Large Gas User representative on the GAB and that the vacancy will be included in the GAB Annual Membership Review which is due to commence around May 2014.</p> <p>The Chair noted that, due to the engagement by a Gas Market Participant with new important information, the IMO Board made the decision to delay the publication of the GSOO to ensure that the final report was reflective of the current thinking and understanding of market and in particular the uncertainty in the period after 2020.</p> <p>The Chair thanked all who engaged with IMO throughout the development of the GSOO and welcomed any further feedback. The Chair also noted that a copy of latest GSOO was available for GAB members.</p>	
<p><b>CLOSED:</b> The Chair declared the meeting closed at 5.10pm.</p>		