

emsTradepoint Force Majeure consultation

Why we are consulting

The purpose of this consultation is to seek your feedback on making Participant Force Majeure (FM) available intra-day (OTD) on the emsTradepoint (etp) trading exchange. We have received feedback from Participants that the etp FM rules should align more closely with FM conventions in bilateral gas contracts. The change would require a change to Clause 12 of the etp [Market Rule Product Supplement – Gas](#).

This paper provides our thinking, and seeks your feedback on the implications of calling Participant FM OTD and how it should be implemented, including:

- The timing of calling an FM event OTD
- Aligning with the deemed flow rule
- Potential increased frequency of FM events on the exchange
- Validity of FM events

In 2019 we changed our Market Rules to include NGP-TRS(D) daily product trades in FM events. This change was welcomed by the industry; however, Participants have since asked why etp does not cover FM OTD. We have investigated the feasibility of making this change via both our Market Rules and through the function of the exchange.

What we need from you

This consultation is an opportunity for you to comment on some of the changes that may be required, as well as any issues that the change could pose.

Your experience and expertise in this area is valued by etp and we appreciate your thoughts on the proposed change.

Queries

If you have any queries regarding this paper, please contact our Support Desk +64 4 590 6692, supportdesk@emstradepoint.co.nz

Submissions

The consultation period is 3 weeks.

Please send submissions to supportdesk@emstradepoint.co.nz by 5pm on Tuesday 6 April 2021. We will acknowledge receipt of all submissions.

Submissions will be published on our [website](#).

If your submission contains confidential information, please ensure this is clearly identified and provide a redacted version of your submission that can be published.

Please note that all information provided to etp is subject to the Official Information Act 1982.

Next steps

emsTradePoint will review submissions and determine next steps to confirm any changes required to systems, processes and rules. We will provide submitters, and other stakeholders, with an update after we have considered the submissions.

List of Questions

The questions we raise in this paper are listed below. While we are specifically interested in responses to these questions, we welcome any other comments or suggestions that you may have.

Question 1	Do you agree that FM on the exchange should align more closely with GSAs?
Question 2	Do you agree that FM should be made available OTD and linked to the next available ID cycle?
Question 3	Do you agree that Participants should retain the obligation to manage their nominations under OATIS?
Question 4	Which of the two options do you agree with for handling OTD trades? Are there alternative ways of handling curtailments?
Question 5	Do you agree with the timeframes for trades to be included as approved and for FM events to be notified?
Question 6	To what extent do you think FM events might increase if we make this change, and do you think this could undermine the credibility of the market?
Question 7	Should emsTradePoint validate all FM events?

The Status Quo

Claiming relief of obligations under the market rules due to FM is currently available. In order to claim FM on etp a Participant must submit a Participant FM Certificate to the etp Support Desk via the Exchange Platform. The submission of a certificate is final and binding and results in an

automatic notification to all Participants of a Participant FM event and the corresponding Affected Quantities to affected parties.

Currently:

- FM is available on net volumes delivered through daily, weekly and monthly contracts.
- Can apply to one or more delivery days.
- Currently not available to be called for effect OTD.
- Participants may submit to increase previous FM volumes, but not decrease.
- Must be called by 16:30 the day prior.

The Issue to Address

Participants have raised concerns with using etp for trading material quantities of gas due to the risks related to the current FM arrangements and the quantum and cost of imbalances.

Consider a scenario where a participant conducts a forward monthly strip trade, selling 20 TJ per day via the market. At 16:31 (daylight saving time) on a day during the delivery month the supply of gas suffers an unplanned interruption, which may last several days. This party calls FM under the market rules and obtains supply relief from the day after the next day, creating around 26 TJ of negative imbalance which might cash-out.

This low probability/high consequence risk tilts the risk balance under the market rules in favour of the parties effected by the FM. Now that the wider gas market has swung to being supply constrained (at times) it is time to re-evaluate if the balance of risks in the market rules is fit for purpose. We want to ensure that participants have viable choices as to how they contract gas.

FM and GSA Alignment

The alternative option for transacting natural gas is the gas sale agreement (GSA). Under a GSA parties are free to agree terms that are suitable to their circumstances. We understand there is reasonably standard language in relation to declaring FM and limited variability in how relief operates under and FM event. We also understand that FM can be called at any time minimising the amount of time available to build up imbalance.

If OTD FM is available under the etp market rules, then there would be greater alignment with GSAs.

Question 1	Do you agree that FM on the exchange should align more closely with GSAs?
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Considerations for an OTD FM Event

Our thinking is that FM will still cover all etp NGP-TRS products. Enabling FM OTD will enable Participants to call FM events earlier and for events lasting less than one day.

Because gas flows through the market hub are notional rather than physical, and are measured using deemed flow in OATIS, we propose that the calling of an FM event should be linked to intraday cycles, as these are the points at which the notional flows through the hub are altered.

Question 2	Do you agree that FM should be made available OTD and linked to the next available ID cycle?
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When considering how to give effect to an FM certificate we have considered using MPOC provisions (15.1 or 15.2 curtailments) or placing the obligation on Participants to update their nominations.

Currently when an FM certificate is lodged with the Market Platform it is the responsibility of Participants to update nominations in OATIS to ensure they remain balanced at the market hub. Etp believe that the obligation to manage altered nominations should remain with the Participants for OTD FM.

Question 3	Do you agree that Participants should retain the obligation to manage their nominations under OATIS?
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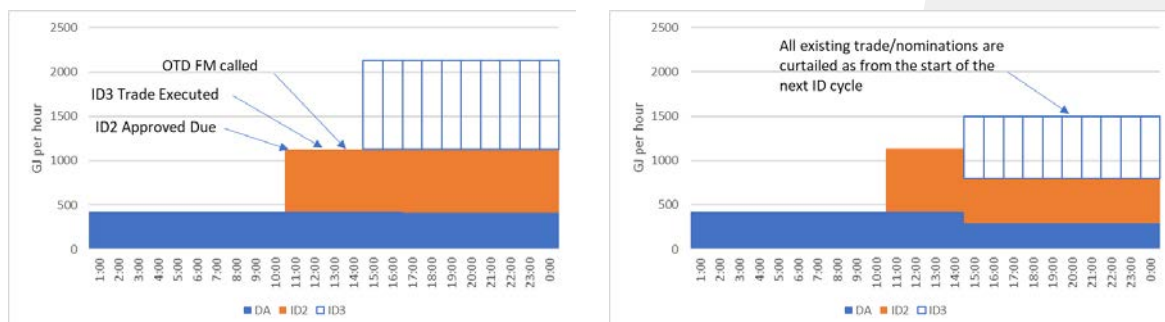
The calculation of Shortfall Quantities will be more complicated with the inclusion of OTD trades. We therefore propose two options when considering OTD trades.

Under the current DA FM arrangements, the calculation of Shortfall Quantities is only needed on daily quantities, and this is straightforward. Allowing OTD FM, and including OTD trades, makes this slightly more complex due to the OTD trades being deemed to flow for less than 24 hours, i.e. they only flow from when the nomination is approved, until the end of that gas day.

In the first option, to calculate the Shortfall Quantities for OTD FM, the system will potentially need to differentiate between:

- trades which were executed DA and are scheduled for the full 24 hours of flow,
- OTD trades which were executed prior to any previous OTD ID cycle and which will have been deemed to flow from that point to the end of the current day,
- and OTD trades which have been executed since the last ID cycle but prior to the OTD FM being called.

This is illustrated by the following example where 10 TJ has been traded DA, 10 TJ has been traded prior to the ID2 cycle, a further 10 TJ is traded after the ID2 cycle closes, and prior to an FM curtailment of 5 TJ is called.



Trades executed before the ID cycle prior to the FM event will be deemed to be Approved Nominations and are deemed to flow without curtailment until the next Approved Due deadline in OATIS, at which point any remaining “undelivered volume” is equally at risk with any trades executed since the previous ID cycle, but prior to the FM being called.

Given the core issues we are addressing in this consultation, the second option is that inclusion of OTD trades in OTD FM is out of scope. The material quantities that are likely to be at risk under the current FM arrangements are likely to be forward traded volume.

When an FM event is called OTD trades would not be included in any delivery/receipt shortfall and will be held whole.

Question 4	Which of the two options do you agree with for handling OTD trades? Are there alternative ways of handling curtailments?
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Finally, there are some timeframes which will need to be included in the market platform to give effect to the logic above.

The first is with regards to the first option for the treatment of OTD trades related to Question 4 above. The minimum time between OTD trade execution and the ID cycle Nomination Due deadline needs to be defined. In the example above, this is the ID2 trade which commences flow at 11:00. We propose that any trades executed more than 5 minutes prior to the Nomination Due deadline will be included as Approved, after which time they will fall to the next available cycle time.

The second is the minimum time prior to a nomination Nominations Due deadline that an FM event can be notified. We propose that an FM event can be notified at any time during the market

opening hours, but it will only be taken into account for a particular nomination cycle if it is entered 30 minutes prior to relevant Nominations Due deadline.

Question 5	Do you agree with the timeframes for trades to be included as approved and for FM events to be notified?
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Frequency of FM events

FM being called on the market under the current rules is relatively infrequent. This is in part because an FM event would need to be expected to last multiple days. It is likely that there are more FM events that last less than one day. We expect that allowing FM to be called OTD is likely to increase the frequency of FM events being called on the Platform Exchange. There are concerns that if FM was to occur with increased frequency it could cause a reduction in credibility of the market.

It should be noted that etp does not currently confirm that an FM event itself is valid, only that the certificate itself is valid under the market rules. The certificate is taken at face value assuming Participants are acting under the Standard of Conduct outlined in the Core Market Rules. The Market Compliance Committee will, however, review the event ex-post as a component of market conduct requirements.

Question 6	To what extent do you think FM events might increase, and do you think this could undermine the credibility of the market?
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Question 7	Should etp validate all FM events?
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