

UPDATE 37

July 2010

3.12 Gas

In conjunction with the AFMA Gas Trading Working Group, Johnson Winter & Slattery has updated section 3.12 of the "*Guide to Australian OTC Transactions*" to incorporate the trading of Cash-Settled Gas Transactions and Market Schedule Variations with reference to the Short Term Trading Market (STTM) introduced by Part 20 of the National Gas Rules and anticipated to commence in September 2010.

Changes to section 3.12 of the *Guide* include:

- amendments to Part C in the Australian Gas Trading Addendum (section 3.12.4.10);
- amendments to section 3.12.4.30 which revise the sample confirmation for a cash settled gas derivative transaction referable to the Victorian gas market prices, as introduced by Part 19 of the National Gas Rules;
- inclusion of a new section 3.12.4.40 to incorporate a sample confirmation for a cash settled gas derivative transaction referable to the STTM; and
- inclusion of a new section 3.12.4.50 to incorporate a sample confirmation for trading a Market Schedule Variation referable to the STTM.

The STTM operates as a gross pool for all deliveries into and out of defined hubs, initially being hubs at Adelaide and Sydney. It operates in addition to the contract market and imposes a market price determined periodically throughout each day.

Whilst the majority of trades supporting the long term contract provision should be cash neutral as the same entity will be the seller and buyer, participants in this market nevertheless identified a need to enter into derivatives to swap the STTM market price for gas with a fixed price in order to hedge their exposure to the market prices for their unmatched positions. The participants also foresaw a need to publish contract documentation to assist reduce deviation charges by making a 'Market Schedule Variation'.

Part C sets out the terms applicable to cash settled gas derivative transactions in the STTM and nominates the ex ante market price as the specified price.
