



Victorian Declared Wholesale Gas Market Review

Submissions open on Discussion Paper

The Australian Energy Market Commission has today published a discussion paper for the Victorian Declared Wholesale Gas Market Review. This paper has been developed to progress the debate on gas market development in Victoria and is intended to further the discussion developed to date as part of the coincident East Coast Wholesale Gas Markets and Pipeline Frameworks Review.

Background

The Victorian declared wholesale gas market (DWGM) is the longest-standing wholesale gas market in Australia. Preceding all three short term trading market hubs and the recently implemented gas supply hub model, it encompasses the entire declared transmission system (DTS) and is the only virtual hub on the east coast.

Established in 1999 by the Victorian government, the DWGM has the objective of supporting retail competition and encouraging the diversity of supply and upstream competition. Today, the DWGM is generally regarded by participants as having met these objectives, providing an effective and competitive gas balancing service and facilitating trading of gas in Victoria based on short-term prices.

Notwithstanding the relative success of the DWGM to date, the east coast gas industry is currently facing a significant structural change due the emergence of the liquefied natural gas (LNG) export industry.

It is expected that large volumes of gas from Queensland and South Australia will be dedicated to these operations, meaning that end users in these states will have to source increasing volumes of gas from Victoria, transported north via the DWGM and Interconnect, the Eastern Gas Pipeline or the SEA Gas Pipeline. Equally, market participants may seek to transport large volumes of gas into Victoria for sale in the DWGM in instances where the LNG export plants are unable to absorb supply due to, for example, an LNG train being taken offline.

It is therefore important that the Victorian gas market arrangements are sufficiently flexible to a range of potential scenarios and that they allow participants to actively manage the risks they face. Additionally, investment needs to occur in a timely and efficient manner and the interaction between the Victorian market arrangements and adjacent markets should occur as seamlessly as possible.

On 4 March 2015, the Victorian Government, with the agreement of the COAG Energy Council, asked the AEMC to conduct a review of the Victorian DWGM. The purpose of the review is to consider whether the current Victorian arrangements provide appropriate signals and incentives for investment in pipeline capacity, allow market participants to effectively manage price and volume risk and facilitate the efficient trade of gas to and from adjacent markets.

More broadly, the review will consider whether, and to what extent, the DWGM continues to effectively promote competition in upstream and downstream markets, in the long-term interest of consumers.

Victorian DWGM Review Discussion Paper

This discussion paper has been developed to progress the debate on gas market development and to provide stakeholders with the opportunity to provide more focussed feedback leading into the Draft Report for the DWGM Review, which the Commission will be releasing in December 2015.

Feedback from stakeholders to the Victorian DWGM Review Discussion Paper will inform the Commission's recommendations in the Stage 2 Draft Report.

The discussion paper identifies and discusses possible gaps in the existing market design and market carriage model under the themes of risk management, market signals, market-driven investment, regulatory investment arrangements and exports.

Five high level packages for reform have then been developed. Each package includes one or more policy measures to address the gaps identified in the existing market design and regulatory framework in Victoria. The packages are:

Package A: Targeted reform - a series of reforms aimed at to fixing 'known issues', whilst retaining the principles of the current market design and thus minimising disturbance to current activities in the market.

Package B: Transmission rights - replacing existing limited capacity rights with a set of firm and non-firm transmission rights, as well as removing the current ancillary payment mechanism operating in the DWGM (and the associated unmanageable price risks that market participants currently face).

Package C: Zonal pricing and capacity rights - establishing a number of different pricing zones across the DTS and introducing capacity rights between the zones.

Package D: Entry-exit regime - converting the existing market carriage arrangements applying to the DTS to an entry-exit model akin to those applied in developed European gas markets.

Package E: Hub and spoke model - designed to test the concept of converting the transportation arrangements applying to the DTS from market carriage to contract carriage, consistent with the remainder of the east coast.

These packages are not an exhaustive list and do not represent a preferred view of the AEMC. They have been developed in order to seek more targeted feedback from stakeholders on Victorian gas market design, as we work to finalise our recommendations in the Stage 2 Draft Report for the Victorian DWGM Review.

Next steps

Submissions to the Victorian DWGM Review Discussion Paper close on **8 October 2015**. Feedback from stakeholders through the consultation process will inform the Commission's recommendations in the Stage 2 Draft Report.

As outlined in the Stage 1 Report for the East Coast Wholesale Gas Markets and Pipeline Frameworks Review, there are four workstreams being progressed as part of Stage 2 of the review. These are illustrated in the below. This Discussion Paper relates to the Victorian DWGM workstream.



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