



## Review into the scope of economic regulation applied to covered pipelines

Draft report 27 February 2018

**The Australian Energy Market Commission today released a package of recommended changes to how gas pipelines across Australia are regulated.**

### Draft report

The AEMC has published a draft report for the review into the regulation of covered pipelines.

Previous AEMC reforms have made it easier to buy and sell gas in the wholesale markets. This review adds to the AEMC's reform package by making it easier and less costly to move that gas to where it is most valued.

The draft report includes draft recommendations for the economic regulation framework for full and light regulation (covered) pipelines. These recommendations include:

- a revised approach to determining reference services that is expected to lead to the specification of additional reference services in an access arrangement in consultation with stakeholders
- strengthening the information reporting obligations on light regulation pipelines
- a clearer arbitration process and framework for making access determinations to enhance the credibility of the threat of arbitration
- more efficient reference tariff and non-tariff terms and conditions for access to pipeline services
- coverage of all expansions of light and full regulation pipelines
- the opportunity for greater stakeholder engagement in all regulatory processes to support more informed decision making
- the removal of the limited regulatory discretion framework to clarify the basis for all regulatory decisions.

The draft report also considers the governance and process that determines the form of regulation that applies to a pipeline. It notes the risk that it may now be difficult to apply full regulation to a pipeline where this outcome has become appropriate, and seeks stakeholder views on this issue.

If implemented in full, the package of draft recommendations will help pipeline users negotiate lower prices and better terms for their gas transportation agreements. A broader range of services will be subject to access arrangements, prices will be set at more efficient levels, contract terms will be more balanced, and arbitration will act as a more credible back-stop if negotiations fail.

**The draft report sets out recommendations to lower the prices and improve terms and conditions for pipeline users across Australia.**

## Scope of the review

The COAG Energy Council requested the AEMC to:

- make recommendations on any amendments to Parts 8 to 12 of the NGR that it considers necessary to address concerns that pipelines subject to full regulation are able to exercise market power to the detriment of economic efficiency and the long term interests of consumers
- consider whether the access dispute resolution mechanism that is set out in the NGR and National Gas Law (NGL) should be amended to more effectively constrain the exercise of market power by pipeline service providers, and become more accessible to shippers
- examine the issues in Parts 8 to 12 that the 2016 Australian Competition & Consumer Commission (ACCC) gas inquiry report identified, namely reference service definition, extension and expansion requirements and the arbitration framework
- consult with stakeholders on additional issues in Parts 8 to 12
- work closely with the Gas Market Report Group (GMRG).

## Parts 8 to 12 of the National Gas Rules

Parts 8 to 12 of the National Gas Rules (NGR) set out how covered (light and full regulation) gas transmission and distribution pipelines are regulated by either the Australian Energy Regulator or the Economic Regulation Authority of Western Australia. These parts of the NGR include rules on the access arrangement process, information disclosure, revenue and price calculations, access terms and conditions, and an arbitration framework.

## Ongoing redesign of Australia's gas markets

This review is part of a broader package of reforms recommended by the AEMC and currently being implemented to make it easier to buy and sell gas across Australia. These reforms include:

- Concentrating trade at two trading hubs to improve liquidity
- Introducing new ways to trade unused pipeline capacity so buyers and sellers have more flexibility
- Providing more and better information so buyers and sellers of gas can make informed decisions
- Developing standard products and information to facilitate trade across different locations
- Reducing barriers to entry to increase competitive pressure on prices.

## Next steps

Submissions on the draft report are due by COB Tuesday 27 March 2018.

The AEMC plans to publish a final report in June 2018.

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