

# STRONGER REGULATION TO CUT GAS PRICES FOR PIPELINE USERS

ECONOMIC REGULATION REVIEW OF COVERED PIPELINES

DRAFT REPORT 27 FEBRUARY 2018

Changing the way gas pipelines are regulated will make it cheaper and easier to move gas around the market. This helps keep gas and electricity prices as low as possible.

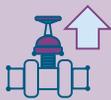
Our recommendations rebalance negotiating power between pipeline users and owners

## BETTER PRICES



More information to assist users in negotiations and improved powers for regulators will result in lower prices

## BETTER SERVICES



Bigger role for regulators to price more services so pipeline users are better protected

## BETTER POLICING



Make arbitration a credible threat to prevent pipeline owners from charging monopoly prices

## How gas pipelines are regulated

Gas pipelines in Australia are regulated under a negotiate-arbitrate framework. Pipeline owners and pipeline users negotiate the terms, conditions and prices for access to pipeline services. Negotiation is supported by information disclosure and regulatory decisions. Arbitration can be used if a deal cannot be agreed.

## WORKING TO BRING GAS PRICES DOWN

These recommendations are focused on making it easier to negotiate gas transportation contracts.

Gas markets are transforming. Largely isolated point-to-point pipelines have evolved into interconnected networks with two-way flows.

This review makes recommendations to help gas pipeline users negotiate lower prices and better deals under Parts 8-12 of the National Gas Rules.

## Our reforms are already delivering outcomes

This review is the next step in the AEMC's work program to redesign gas markets

If implemented in full our reforms have the potential to increase Australia's productivity through improved viability of gas-using industry and flow-on benefits of employment and tax revenues

Participants can more easily trade between locations increasing flexibility

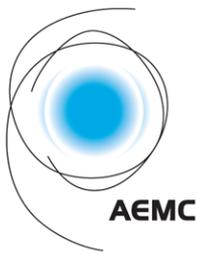
The market is better able to adapt to changes in supply and international trade while still meeting consumer demand

Competition is improved through consistent pricing mechanisms that make it easier to source gas from anywhere in the market

New entrants have the same opportunities as incumbents to access markets and information

Buyers and sellers can better manage risk due to clearer, simpler information

Participants can more easily trade unused pipeline capacity which reduces scheduling risks and costs



## Lower prices and better deals for gas pipeline users

### **The Australian Energy Market Commission today called for public submissions on stronger regulation of gas pipelines.**

The draft recommendations follow a request from the COAG Energy Council to undertake a review of Parts 8-12 of the National Gas Rules to address concerns that customers may be paying more than necessary for gas pipeline services.

AEMC Chairman John Pierce said if implemented in full, the reforms would make it easier and cheaper to move gas around Australia to where it is most valued, helping to keep gas and electricity prices as low as possible.

“The changes we have recommended would help pipeline users negotiate lower prices and better deals for shipping gas. Gas users like manufacturing businesses that rely on gas, gas-fired electricity generators, and retailers who supply small businesses and households would be better off as a result.”

More services would be subject to access arrangements, prices would be set at more efficient levels, contract terms would be more balanced, and arbitration would act as a more credible back-stop if negotiations fail.

The AEMC has recommended changes to give regulators oversight over a wider range of pipeline services, and to allow all stakeholders, including pipeline users, to have more input into regulators’ decisions on appropriate prices, services and conditions. This would mean pipeline users are better represented and better protected.

The recommendations in this review are another step in the ongoing redesign of Australia’s gas markets. The AEMC’s reforms to make it easier to buy, sell and move gas around the system are already being implemented by the Gas Market Reform Group established by the COAG Energy Council.

These reforms include introducing new ways to trade unused pipeline capacity; requiring more and better information so buyers and sellers can make informed decisions; and developing standard products and contract terms to facilitate trade across different locations. Redesigning gas markets will improve competition and lower the costs to households and businesses.

For this review the AEMC has worked closely with the ACCC as it continues its gas market inquiry, the Australian Energy Regulator, the Economic Regulation Authority of Western Australia and the Gas Market Reform Group.

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

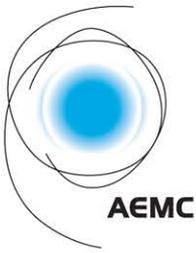
### **Background**

*Gas markets are transforming. With the development of Australia’s LNG export market, largely isolated point-to-point pipelines have evolved into an interconnected network with two-way flows.*

*As market evolve, the AEMC’s gas market reforms, including our recent reviews of the [East Coast gas market](#) and [Victorian gas market](#), will make it easier and cheaper to move gas around Australia to where it is needed and valued most by consumers. This helps keep gas and electricity prices as low as possible.*

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27 February 2018



## 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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