



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

AEMC invites submissions on issues paper

### **The AEMC invites submissions on the review into the scope of economic regulation applied to covered pipelines**

Parts 8 to 12 of the National Gas Rules (NGR) set out how covered gas transmission and distribution pipelines are regulated. These parts include rules on the access arrangement process, information disclosure, revenue and price calculations, access terms and conditions, and an arbitration framework.

#### **Scope of the review**

The COAG Energy Council has asked 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).

#### **Issues paper**

The AEMC published an issues paper on 27 June 2017.

The issues paper aims to facilitate public consultation on the policy objectives of the gas access regime, in addition to the purpose and operation of the current regulatory framework in relation to the economic regulation of covered gas transmission and distribution pipelines.

In assessing the current framework and any potential amendments, the Commission will be guided by the national gas objective (NGO):

- Do the rules provide for an efficient and effective regulatory framework that is consistent with the NGO?
- How does the framework affect the efficient operation and use of gas transmission and distribution pipelines?
- Does the framework provide appropriate incentives to service providers to provide access to pipeline services for upstream and downstream users?
- Do the rules influence the tariff and non-tariff terms and conditions of access to pipeline services for the long term interest of consumers?

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**The AEMC pipeline review will consider the objectives and operation of the access regime for gas transmission and distribution pipelines.**

## Background

At the request of the Australian Government, the ACCC held an inquiry into the competitiveness of wholesale gas prices in eastern and southern Australia. The ACCC released its report in April 2016, and made a suite of recommendations.

The recommendations included that the COAG Energy Council ask the AEMC to review Parts 8-12 of the NGR. The ACCC recommended that the AEMC make recommendations on changes that would address the concern that pipelines subject to full regulation may be able to exercise market power to the detriment of consumers and economic efficiency.

On 19 August 2016 the COAG Energy Council released a comprehensive gas market reform package. The package included a request that Dr Michael Vertigan examine the current regulatory test for the regulation of gas pipelines. Dr Vertigan released an examination paper in December 2016, which recommended that the coverage test not be changed at this time. However, the paper did recommend that a framework for binding arbitration be introduced into the NGL. The paper also recommended the introduction of a requirement for all pipelines to provide information on all pipeline services.

The COAG Energy Council reform package also established the Gas Market Reform Group (GMRG) to be chaired by Dr Vertigan. Consistent with Dr Vertigan's examination paper recommendation, the GMRG has been developing a detailed design of the arbitration and information disclosure framework for non-scheme pipelines.

On 5 May 2017 the COAG Energy Council issued terms of reference to the AEMC to review the scope of economic regulation applied to covered pipelines, as recommended by the ACCC inquiry.

## Next steps

The AEMC invites stakeholder submissions by 22 August 2017.

A draft report is to be published in February 2018.

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27 June 2017