

Review of the Victorian declared wholesale gas market

Assessment of alternative market designs

The AEMC has released a discussion paper on alternative options for reforming the Victorian declared wholesale gas market (DWGM). These options have been put forward by stakeholders through recent consultation.

The Commission's draft model for reforming the DWGM

In October 2016, the Commission recommended and subsequently consulted on a draft model to reform the DWGM. The draft model would reform the following aspects of the DWGM:

- the daily gross pool gas trading market would be replaced with bilateral or hub trading that would allow participants to continuously and voluntarily trade gas at any time
- the implicit capacity allocation arrangements currently used within the DWGM would be replaced by with a system of tradable entry and exit rights on the DTS.

While there was some stakeholder support for the draft model, particularly by those with an interest in trading gas between regions, submissions by many of the existing DWGM participants supported the further examination of incremental market reform options that would largely retain certain aspects of the DWGM. More substantial alternative reforms were also raised.

While the Commission considers there is considerable merit in the draft model, there are benefits from re-assessing the alternatives. It allows the assessment of several new options that were not raised earlier in the review, and may uncover new benefits and other considerations that were not identified through earlier consultation.

The Commission welcomes this constructive stakeholder interest in determining the best solution to reform the DWGM.

Assessment of alternative market designs

The assessment of alternative market designs examines a range of options to reform the gas trading arrangements and the capacity allocation arrangements in the DWGM as set out in the figure below. These options have primarily been raised by stakeholders in the latest round of consultation on the DWGM review.

For each option, the Commission has provided a brief description of the issue(s) that the option is seeking to address, how the option could work in practice, and a first assessment of the potential benefits and issues.

These options are not likely to be successful at reducing the identified issues in the DWGM on a stand-alone basis. They would likely need to be implemented in combination with one another in order to address each of the issues identified with the current DWGM, consistent with achieving the COAG Energy Council's vision for the east coast gas market, which can be summarised as:

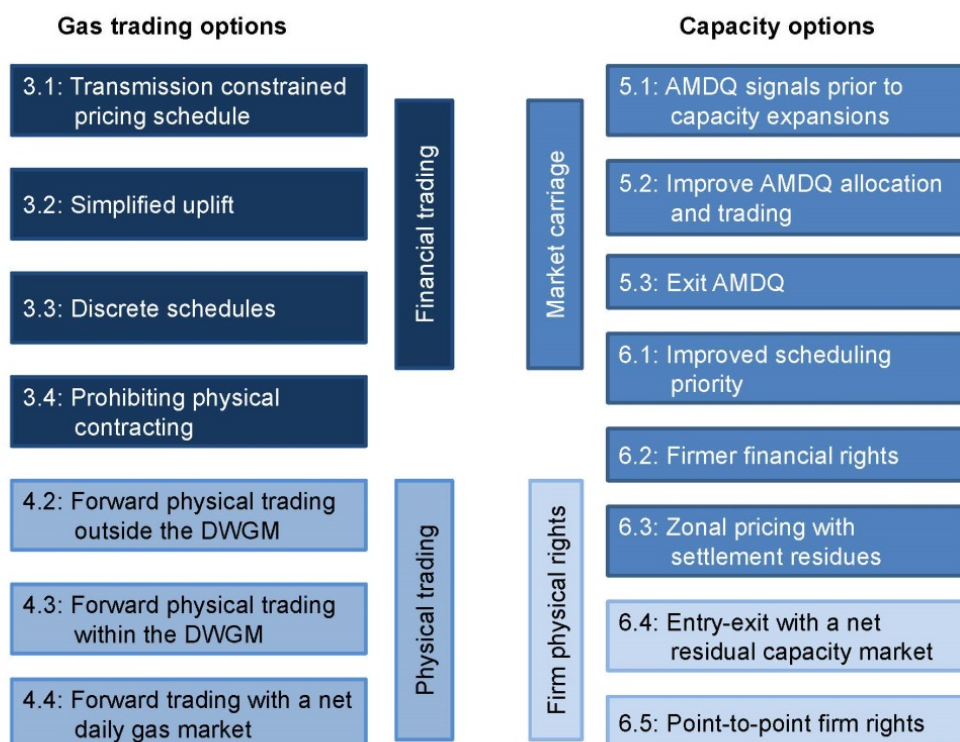
1. Establishing a liquid wholesale gas market and, consequently, an efficient and transparent reference price for gas that provides market signals for investment and supply.
2. A supportive regulatory framework for infrastructure investment that facilitates responses to these market signals.
3. Market arrangements that allow participants to readily trade gas between hub locations within a national framework.

The AEMC is consulting on options to reform the Victorian declared wholesale gas market.

Reforming the DWGM to achieve the vision is expected to be beneficial not only for Victorian gas consumers, but also for gas consumers across the east coast of Australia.

A more efficient Victorian gas market, in the context of an east coast gas market, is also likely to be of key importance for the electricity sector given the use of gas as a generation fuel.

Overview of options



Consultation

The Commission welcomes feedback on the options for DWGM market reform put forward in the assessment of alternative market designs. In particular, the Commission is interested in stakeholder feedback on:

- the benefits of each option – including whether and how each option addresses the stated issues with the DWGM
- issues that may require further thought prior to implementation
- how options could be combined to best address the issues with the DWGM.

Submissions on this discussion paper are due no later than Thursday, 11 May 2017.

The AEMC is also holding two stakeholder workshops during the consultation period:

- A teleconference on 12 April 2017 from 10am to 12pm. The purpose of the teleconference is to describe and explain each option and allow stakeholders to ask clarifying questions.
- A face-to-face workshop on 27 April in Melbourne from 10.30am to 3.30pm. The purpose of the workshop is to seek stakeholder feedback on the benefits of and issues with each option, and how each option could be implemented.

Interested parties may register for one or both workshops through the AEMC website.

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