



East Coast Wholesale Gas Market and Pipeline Frameworks Review

Stage 1 complete, Stage 2 commences

The Australian Energy Market Commission has started detailed work on options to promote the long-term development of gas markets, building on recommendations for immediate actions released today by the East Coast Wholesale Gas Market and Pipeline Frameworks Review.

Background

Australian gas markets are experiencing a rapid transition as conventional gas reserves decline, unconventional gas resources become increasingly important, gas pipeline and storage infrastructure improves, and gas exports begin from the eastern Australian gas market.

Currently, most gas is traded bilaterally via long-term contracts. Unlike electricity, there is no national wholesale market for gas, which reduces price transparency.

At its December 2014 meeting, the COAG Energy Council asked the AEMC to review the design, function and roles of facilitated gas markets and gas transportation arrangements for the first time.

Stage 1 of the review is now complete with the stage 1 final report presented at the Energy Council's July 2015 meeting. Further options to promote long-term gas market development are being explored by the review's second stage. A stage 2 draft report will be provided at the Energy Council's December 2015 meeting.

The Victorian Government has also asked the AEMC to undertake a detailed review of the pipeline capacity, investment, planning and risk management mechanisms in the Victorian Declared Wholesale Gas Market. The Stage 1 Final Report released on 23 July 2015 incorporates initial analysis for the Declared Wholesale Gas Market Review, with further work to be carried out during a parallel review, also due for completion in 2016.

Stage 1 Final Report

The East Coast Gas Review Stage 1 Final Report provides an overview of how Australia's gas markets function and outlines areas where reforms may be required to accommodate the changing dynamics created by LNG exports and coal seam gas production.

The report recommends four immediate actions for consideration by the Energy Council to enhance the transparency and efficiency of the market. These are:

A new gas price index to improve price transparency

We have recommended the development of a survey-based gas price index that would reflect trends in prices payable under bilateral contracts over time. The index would be compiled by the Australian Bureau of Statistics (ABS) as an extension of its existing Producer Price Index, and would survey large users and retailers that purchase gas directly from producers. The methodology, data collection process, confidentiality arrangements and other issues would be developed between the AEMC, the ABS and industry, with implementation possible from the December 2015 quarter.

Reducing complexity with harmonised gas market start times

The timing of the gas trading window differs across the east coast, adding complexity and costs for parties that operate across multiple markets, and posing barriers to moving gas between markets. The AEMC is recommending that the Energy Council submit a rule change request to harmonise the gas day start time across the east coast.

Removing restrictions on who is able to propose rule changes for the Victorian Declared Wholesale Gas Market

We have recommended the Energy Council change the National Gas Law (NGL) that would enable requests for change to be submitted by a broader range of market participants in line with other east coast markets. Currently requests to change the rules governing the Victorian market can be made only by the Victorian Government or the Australian Energy Market Operator, effectively posing a barrier to other stakeholders to influence market development.

Enhancing information to improve gas pipeline trading capacity

Consultation has already started on an Energy Council rule change request to increase the amount of information that gas market participants are required to provide to the Australian Energy Market Operator (AEMO) for publication on the Natural Gas Services Bulletin Board. The rule change is designed to enhance gas pipeline trading capacity by lowering costs, increasing awareness of gas flows and improving AEMO's monitoring and operational capacity.

While the starting point for the Commission's assessment will be the Energy Council's rule change request, we also intend to consider whether there are any other informational gaps that fall within the scope of the proposed rule change that could also be dealt with at this time. This could provide an efficient and timely way of addressing information gaps that require changes to be made to the rules.

Stage 2 Consultation

Stage 2 of the East Coast Wholesale Gas Market and Pipeline Frameworks Review will develop more options to promote long-term gas market development and enable the rules governing the markets and pipelines to be fit for purpose in the new gas environment.

Key work to be undertaken as part of Stage 2 includes:

Reviewing the efficiency of the wholesale gas markets

The Commission will consider the role and functions of the wholesale markets on the east coast, in light of their development and recent performance. In particular, the review will reassess the objectives of the Short Term Trading Market, its interaction with the Gas Supply Hub model, and assess the relative merits of physical and virtual trading hubs, considering their design, function, number and location. The role and function of hub services will also be considered.

Maximising pipeline trading capacity

Stage 1 of the review has found that some aspects of the pipeline frameworks on the east coast may be impeding the reallocation of contracted but unutilised pipeline capacity. Stage 2 will further investigate the effectiveness of the frameworks and consider ways to facilitate secondary capacity trading. This more detailed work will also assess whether the existing third party access regime is likely to remain fit for purpose.

Establishing a one-stop shop for gas market data

Stage 2 of the review will consider the strategic direction for information provision to support a liquid wholesale gas market.

This work will consider the long term role and function of the Bulletin Board, including consideration of the appropriate content; the timeliness and reliability of information; data formatting requirements; the compliance and enforcement framework; and the future governance of the Bulletin Board to support its continued development as needed.

Victorian Declared Wholesale Gas Market Review

The COAG Energy Council also asked the AEMC to review the Victorian Declared Wholesale Gas Market to identify whether reforms are required to enhance the liquidity, transparency and flexibility of the Victorian wholesale gas market in light of the structural changes across the entire east coast.

The first stages of this work were undertaken as part of Stage 1 of the East Coast Gas Review.

The Victorian Declared Wholesale Gas Market Review will continue throughout 2015 as a stand-alone review (separate to the East Coast Gas Review), and will consider whether objectives for the Victorian market should change in light of the broader east coast environment, and whether the current market design is achieving its objectives.

The AEMC will facilitate a series of workshops throughout both Stage 2 of the East Coast Gas Review, and the Victorian Declared Wholesale Gas Market Review

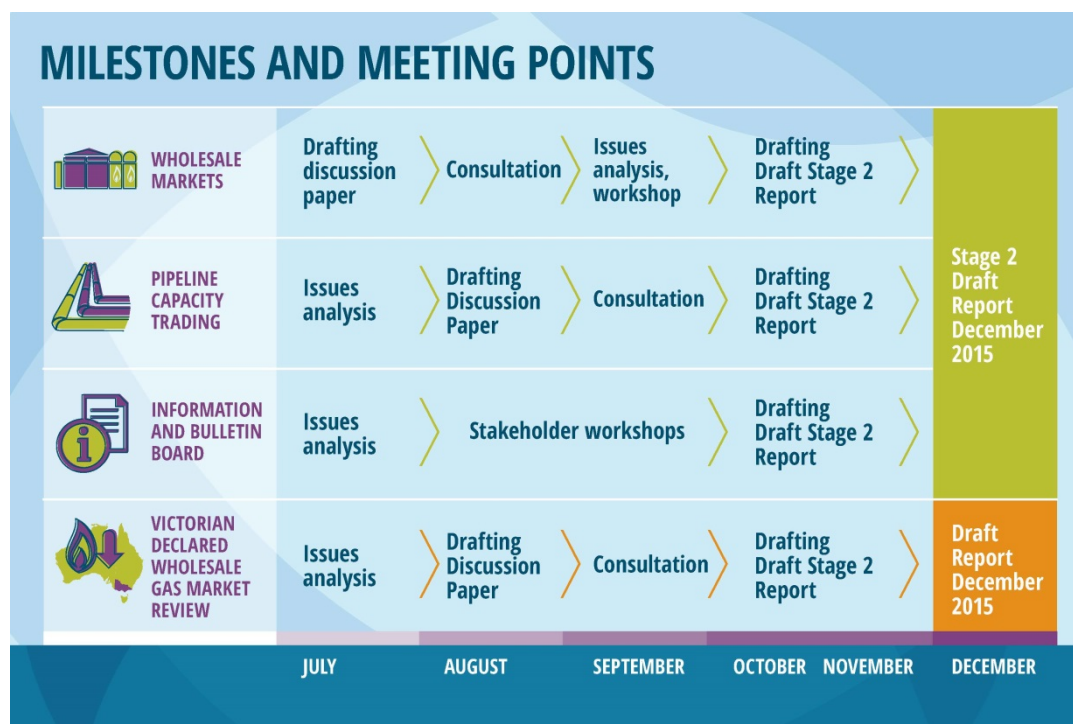
It will also consider the Victorian market's potential role in providing an efficient reference price for all east coast gas markets, and the capacity for inter-regional trade.

Next steps

In keeping with our Stage 1 recommendation to improve price transparency through the introduction of a wholesale gas price index, the AEMC will facilitate a workshop between industry and the ABS on 18 August 2015 at the AEMC's offices in Sydney. An agenda will be circulated closer to the meeting.

Register your interest to attend the workshop at aemc.gov.au.

Consultation as part of Stage 2 of both the East Coast Gas Review and Victorian Declared Wholesale Gas Market Review will be extensive over the coming months, as outlined below:



Stakeholders will be invited to make submissions to AEMC discussion papers on wholesale markets, pipeline capacity trading and the Victorian Declared Wholesale Gas Market.

Stakeholders are also invited to express their interest in being participants in a series of workshops to be held from August to early October related to the Information and Bulletin Board workstream. Please register your interest to attend the workshop by emailing Matt Unicomb at matt.unicomb@aemc.gov.au by 31 July 2015.

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23 July 2015