



## East Coast Wholesale Gas Market and Pipeline Frameworks Review

### Submissions open on Discussion Paper

**The Australian Energy Market Commission has today published a discussion paper on the proposed reforms to pipeline access frameworks as part of the East Coast Gas Review.**

As the Commission progresses toward submitting its Final Report to the COAG Energy Council, it is carrying out a more detailed review of the options for implementing its draft recommendations to reform the contract carriage model for gas transportation which operates in eastern Australia outside of the Victorian Declared Transmission System.

A discussion paper has been published to provide stakeholders with an opportunity to contribute to the development of:

- the governance and regulatory arrangements that may be required to support the capacity trading related initiatives; and
- the next layer of detail on the proposed package of reforms.

We are also seeking more feedback on the costs and benefits of the proposed reforms.

Specifically, this paper focuses on the following:

#### **Governance**

There is a spectrum of possible approaches to governance and regulatory arrangements which could be adopted to support the implementation of capacity-trading initiatives, ranging from a purely industry-led approach to a purely regulatory-led approach.

Some pipeline owners have suggested that it would be appropriate to implement most of the recommendations on an industry-led basis, without (or with very limited) regulatory involvement. The Commission can see benefits and disadvantages in both regulatory and industry-led processes and seeks to recommend a process which balances the two.

#### **Standardisation**

Capacity standardisation will play a pivotal role in the reforms to facilitate secondary capacity trade. It will support trade through the proposed capacity trading platform, is a key design element of the auction for contracted but un-nominated capacity, and will enable the implementation of information provision requirements. The discussion paper considers the terms and conditions that should be standardised in primary and secondary contracts.

#### **Capacity trading platform and secondary trading information provision**

The Commission seeks feedback on the services that could be sold through the capacity trading platform, the method for executing the trades, settlement and prudential arrangements for trades, whether single or multiple platforms should be instigated, and who should be responsible for operating the platform.

With regard to the secondary trade information provision requirements, the paper explores what information should be reported, and when, noting confidentiality concerns and the cost of information provision.

#### **Auction for contracted but un-nominated capacity**

An auction for contracted but un-nominated capacity is intended to improve the liquidity of gas trading at hubs by promoting shorter-term trades in pipeline capacity. The paper discusses how such an auction might be designed, given the characteristics of the market.

#### **Information provision requirements for primary capacity purchases**

The Commission seeks feedback on what information on primary capacity purchases should be provided and by when.

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**The Commission welcomes submissions on the next layer of detail on the proposed reforms by 29 March 2016.**

## Background

On 4 December 2015, the Commission provided the Council of Australian Governments (COAG) Energy Council with a draft package of recommended reforms to improve wholesale gas markets and pipeline frameworks on the east coast of Australia, consistent with the Energy Council's Vision.

Specifically, the Commission recommended:

- The introduction of a day-ahead auction of contracted but un-nominated pipeline capacity.
- The mandatory development of a capacity trading platform(s), which would be used to facilitate capacity sales by capacity holders ahead of the auction by enabling shippers to anonymously post buy or sell offers. To further support secondary capacity trades, the Commission recommended:
  - requiring industry, with an appropriate level of regulatory oversight, to develop more standardised primary and secondary capacity products to facilitate more secondary capacity trading; and
  - requiring the publication of key information on secondary capacity trades (ie, shipper to shipper trades), including the price and other terms and conditions that may affect the prices struck in these trades.
- Requiring the publication of key information on primary capacity purchases.

These reforms should facilitate the more dynamic trading of capacity by:

- reducing search and transaction costs involved in trades;
- enabling shippers to obtain competitively priced un-nominated capacity;
- improving the incentives for shippers to trade capacity;
- reducing actual or perceived discriminatory access to capacity; and
- improving the information on which decisions in the sector are made.

In turn, more dynamic trading of capacity should reduce the costs associated with trading gas in the wholesale markets, supporting the establishment of a liquid market with an efficient reference price – a key element of the COAG Energy Council's Vision.

## Responding to the pipeline access discussion paper

The Commission welcomes submissions on the discussion paper by Tuesday 29 March 2016.

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