



Australian Energy Market Commission - *East Coast Wholesale Gas Market  
and Transmission Pipeline Frameworks Review*

Public Forum, 25 February, Sydney

Jamie Lowe, Head of Regulation

UNCLASSIFIED

**GDF SUEZ**

 **MITSUI & CO., LTD.**



# Role of pipeline transmission in promoting efficient markets

## Key issues

- Importance of market information
- Trade and interconnected pipelines
- Management of capacity
- Interface between pipelines and markets

## Key messages

- Market has come a long way and we now have opportunity for further development
- Pipeline and gas infrastructure are fundamental components of the gas sector development
- Market developments and trading arrangements cannot progress without a transportation regime, including capacity trading and access that encourages efficient market outcomes



## Importance of market information

- Information arrangements in the gas sector are fragmented and incomplete
- Role of information asymmetries
- Use of multiple platforms
- Understanding LNG developments is becoming more significant
- Information from pipelines and facilities included in any improved arrangements
- Questions as to what pipeline data should be made available or is needed unresolved
  - Line pack information
  - Flow and nominations data
  - Medium term system adequacy
  - Available capacity versus historic usage
  - Injection and withdrawal

**Information asymmetries are a genuine impediment to fully functioning markets**

**Any steps to develop a more complete reporting framework needs to consider pipeline and facility information provision**



## Trade and interconnected pipelines

- Need to appreciate that trade is currently occurring
- There is an appetite for diverse forms of trading
- Problem is current trading is mostly viable within relatively narrow bounds
- High entry and transaction costs and limited risk management options
- Inability to maximise value of trade in the market
- Market is characterised by limited trades and swaps that usually occur between parties with established bi-lateral relationships
- Is not efficiency maximising

**Inability to maximise value of trade in the market does not best serve sector, economy or consumers**



## Management of capacity

- There are impediments to capacity trading on contract carriage pipelines
- Market carriage also creates problems of its own and is not a panacea
- Importance of underpinning investment cannot be overstated
- Long term contracts are not a barrier to capacity trading but they are not a facilitator either
- Voluntary mechanisms and notice boards are not sufficient
- Need to overcome high capacity trading transaction costs
- Need a dynamic mechanism which can allocate capacity to participants who most value it
- Any new arrangement needs to protect existing property rights

**There are mechanisms that facilitate greater capacity usage, trading and allocation that do not undermine the long term investment incentives that pipeline developers depend on**



## Interface between pipelines and markets

- Gas producers and pipelines are usually out of the 'market'
- Facilities and pipelines have large footprint
- Maintenance, network decisions, contractual limitations, charges faced
- Long term and inflexible contracts meet the needs of dominant suppliers
- Where competition flourishes regulation can be light handed
- Open question as to whether existing regime encourages most efficient outcomes
- Should pipelines and networks also face more market risks and incentives?

**Pipelines and facilities can directly impact the viability of markets and trading, both in the short-term and the longer term**



## Summary

- Information asymmetries are a genuine impediment to fully functioning markets
- Market developments and trading arrangements cannot progress without a transportation regime, including capacity trading and access that encourages efficient market outcomes
- Any steps to develop a more complete reporting framework needs to consider pipeline and facility information provision
- Market is characterised by limited trades and swaps that usually occur between parties with established bi-lateral relationships
- There are mechanisms that facilitate greater capacity usage, trading and allocation that do not undermine long term investment incentives that pipeline developers depend on
- Pipelines and facilities can directly impact the viability of markets and trading, both in the short-term and the longer term
- Market has come a long way and we now have opportunity for further development.
- Pipeline and gas infrastructure are fundamental components of the development process

**Existing arrangements have provided identifiable benefits; however, given changing conditions the time is right for the sector to consider enhancements to gas market frameworks**