

Final report: review into the application of gas trading reforms in the Northern Territory

The AEMC is recommending that the gas pipeline capacity trading reform package, developed as part of the AEMC's east coast gas review, be implemented in the Northern Territory.

In a final report published in March 2018, the AEMC found that the entire east coast gas market capacity reform package should apply to the Northern Territory (NT). The same benefits from the reforms identified in the east coast review have been found to apply in the NT. The Commission's recommendations will be considered by the COAG Energy Council.

The reforms

The capacity trading reforms are based on a package of reforms developed by the AEMC in 2016 to support faster and more efficient gas trading and access to pipeline transportation along the east coast of Australia. These reforms have been endorsed by the COAG Energy Council.

The pipeline capacity trading reform package consists of:

- a day-ahead auction of contracted but un-nominated pipeline capacity
- a capacity trading platform to support exchange-based trading
- standardised provisions in capacity agreements to provide greater tradability
- a reporting framework for secondary trades of pipeline capacity and hub services.

Key findings

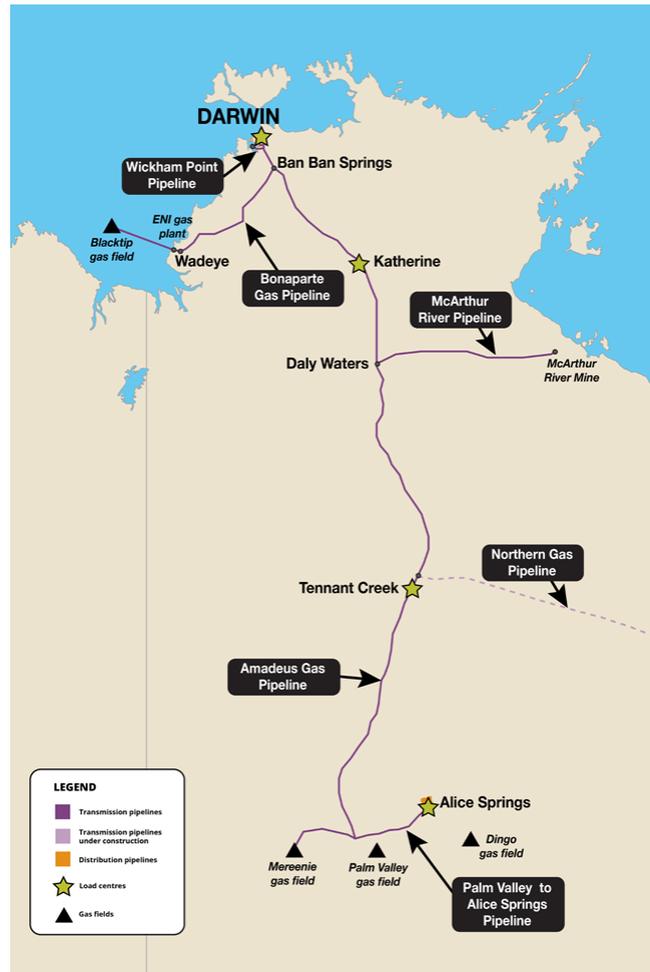
The trading of secondary pipeline capacity in the NT is limited as a result of:

- little incentive for primary shippers to trade secondary capacity
- high search and transaction costs
- the bespoke nature of transportation agreements limiting liquidity
- the lack of public information on the prices paid for secondary capacity.

Overall, the capacity trading reforms will assist in addressing the issues found to be limiting trading and enable pipeline capacity to be traded to those participants that value it most highly. The reform of pipeline capacity trading is one vital component to the development of liquid trading markets with prices that can respond to short-term shifts in supply and demand.

Benefits of the reforms in the Northern Territory and east coast markets

The NT gas market is characterised by underutilised capacity and a lack of secondary trading on the key pipeline - the Amadeus Gas Pipeline



The NT gas market has for many years been isolated from other Australian gas markets, with no interconnecting pipelines. The market has historically been dominated by the supply of gas-fired generation without a large residential and industrial market for gas. The relatively small size of the market has meant both supply and transport have been contracted through a limited number of long-term agreements.

In the NT, the flow of gas has changed in recent years with gas supply moving predominantly from gas fields at the southern end of the Amadeus Gas Pipeline to the offshore Blacktip field at the northern end of the Amadeus Gas Pipeline.

The Commissioning of the Northern Gas Pipeline at the end of 2018 will see the NT connected to the rest of the east coast market for the first time.

These market characteristics were considered as part of this review.

The capacity trading reforms will help lower barriers to entry for new supply and potential load looking to source gas in the NT. Better information on the cost of particular routes will aid gas supply and gas consuming projects in assessing new development in the NT.

The reforms will lead to more efficient utilisation of pipeline capacity over the long term, through incentives on incumbent shippers to trade spare capacity, and over the short term through the mandatory auction mechanism.

The day-ahead auction will incentivise primary capacity holders in the NT to trade secondary capacity particularly where the pipeline is underutilised. The combinatorial nature of the auction will facilitate short term trades across the NT and into the broader east coast market.

The capacity trading platform will lower search and transaction costs and the time taken to execute secondary trades. It will provide secondary shippers with confidence that trades are non-discriminatory.

Standardisation will help to reduce the provisions in capacity contracts that need to be negotiated. This will make capacity products more fungible and over time should help to increase liquidity in the NT gas market and the broader east coast gas market.

The reporting framework will provide secondary shippers with the confidence that access is being provided on a non-discriminatory basis. In so doing it will expedite the transaction process and bring clarity to the costs of transport to existing and new consumers.

While the reforms will have costs, these costs are expected to be incremental given the same market participants and AEMO are required to implement the reforms in their other east coast operations. The benefits to consumers from these reforms are expected to outweigh these potential costs.

Overall, the Commission is of the view that the application of the capacity trading reforms in the NT are in the long-term interests of consumers. The reforms will promote the

efficient use of pipeline capacity in the short and long term and provide valuable information to the market on the cost associated with secondary capacity across the entirety of the east coast of Australia.

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The completion of the Northern Gas Pipeline, potential new gas projects and the expected growth of renewable generation in the NT will result in the need for greater access to secondary pipeline capacity