

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235

Dear Mr Pierce

On 24 November 2017, the COAG Energy Council agreed that a review be undertaken in early 2018 to determine whether the capacity trading reform package should extend to the Northern Territory.

The Council agreed that this review would be carried out by the Australian Energy Market Commission with the Terms of Reference (ToR) to be developed in conjunction with the Northern Territory Government and the Gas Market Reform Group.

Please find attached the finalised ToR for the review of the applicability of transportation capacity trading related reforms in the Northern Territory.

Should you wish to discuss the ToR, please contact Samantha Byrne on (08) 8999 7487 or by email at samantha.byrne@nt.gov.au.

Yours sincerely



James Chisholm
Acting Chair
COAG Energy Council Senior Committee of Officials

20 December 17

Attachment:

Terms of Reference – Review of the applicability of transportation capacity trading related reforms in the Northern Territory

TERMS OF REFERENCE

Australian Energy Market Commission

Review of the applicability of transportation capacity trading reform package in the Northern Territory

Background

In May 2016, the Australian Energy Market Commission (AEMC or Commission) completed its review of east coast wholesale gas markets and pipeline frameworks (the East Coast Review).¹

With respect to the east coast, amongst other things, the Commission found that a number of factors were limiting the ability of prospective shippers to access competitively priced secondary transportation capacity² on contract carriage transmission pipelines, including:

- high search and transaction costs, particularly for shorter term capacity trades
- the bespoke nature of transportation agreements, which can impede the development of fungible capacity products and limit the pool of potential buyers and sellers
- the lack of public information on the prices paid for secondary capacity, which means shippers are unable to readily assess the market value of capacity.

To address these issues, the Commission recommended the introduction of:

1. A day-ahead auction of contracted but un-nominated pipeline capacity to be conducted shortly after nomination cut-off.
2. A capacity trading platform(s) to facilitate sales by capacity holders ahead of the auction and provide for exchange based trading.
3. Standardised provisions in capacity agreements to make capacity more fungible and allow shippers greater receipt and delivery point flexibility.
4. A reporting framework for secondary trades of pipeline capacity and hub services.

Together the Commission expected this package of reforms to promote the National Gas Objective (NGO) and the COAG Energy Council's (Energy Council) Vision³ for the Australian Gas Market (*Vision*), by fostering the development of a more liquid secondary capacity market and, in so doing:

- improving the efficiency with which capacity is allocated and used on transportation assets operating under the contract carriage model; and
- facilitating increased trade in gas and supporting the development of a more robust reference price for gas in the east coast.

On 14 August 2016, the Energy Council agreed to implement the capacity trading reform package⁴ and accorded the Gas Market Reform Group (GMRG) responsibility for the design, development and implementation of these reforms.⁵ On 24 November 2017, the Energy

¹ AEMC 2016, *East Coast Wholesale Gas Markets and Pipeline Frameworks Review*, Stage 2 Final Report, 23 May 2016, Sydney.

² Capacity traded between shippers, as opposed to bought directly from a pipeline owner.

³ COAG Energy Council, *Australian Gas Market Vision*, December 2014.

⁴ COAG Energy Council, *Gas Market Reform Package Bulletin*, August 2016.

⁵ COAG Energy Council, 5th Energy Council Meeting Communique, Canberra, 19 August 2016.

Council agreed that the capacity trading reform package should be implemented by 1 March 2019.⁶

Energy Council Directed Review

Pursuant to section 79 of the National Gas Law (NGL),⁷ the COAG Energy Council⁸ requests that the AEMC conduct a review of the applicability of the capacity trading reform package to the Northern Territory.

These Terms of Reference, which have been developed in accordance with section 80 of the NGL, are intended to guide the AEMC's review.

Purpose of this review

The East Coast Review did not explicitly consider gas or transportation capacity markets in the Northern Territory. The purpose of this review is to consider whether the capacity trading reform package, which is currently being implemented in the east coast, should also be implemented (in whole or in part) in the Northern Territory.

Considerations

When carrying out this review, the Commission should utilise the same qualitative assessment framework that was used in the East Coast Review,⁹ taking into account the specific circumstances of the gas market in the Northern Territory, including:

- the nature of the institutional and commercial arrangements underpinning the supply and transportation of gas in the Northern Territory; and
- the development of the Northern Gas Pipeline, which once complete will link the east coast and Northern Territory gas markets.

In particular, the Commission should:

- have regard to the considerations set out in the East Coast Review terms of reference,¹⁰ suitably amended to take account of the circumstances of the Northern Territory; and
- consider whether the issues that it identified in the review in the east coast are, or are likely to be in the future, present in the Northern Territory, and advise the Energy Council on whether the capacity trading reform package (as further developed by the GMRG), should be implemented, in whole or in part, in the Northern Territory.

The Commission should also consider and comment on the likely effect of the reforms if applied in the Northern Territory on gas and transportation markets, and consumers of gas:

- within the Northern Territory; and

⁶ COAG Energy Council, 15th Energy Council Meeting Communique, Hobart, 24 November 2017.

⁷ Section 79 of the NGL allows the Ministerial Council on Energy (MCE) to give a written direction to the AEMC that it conduct a review into a range of matters, including any matter relating to a market for gas or access to pipeline or pipeline services.

⁸ The COAG Energy Council comprises Ministers responsible for Energy matters all of whom are members of the legally enduring MCE.

⁹ AEMC 2016, *East Coast Wholesale Gas Markets and Pipeline Frameworks Review*, Stage 2 Final Report, 23 May 2016, Sydney, Appendix B.

¹⁰ East Coast Wholesale Gas Market and Pipeline Frameworks Review, Terms of Reference, 20 February 2015, p. 5.

- within the wider east coast gas market, particularly once construction of the Northern Gas Pipeline is complete.

When carrying out this review, the Commission should have regard to the National Gas Objective. Consistent with the East Coast Review, the Commission should also consider:

- the COAG Energy Council's *Vision*; and
- the characteristics of a well-functioning gas market.

A quantitative assessment of the effects of the reforms is not required. However, where quantitative information is provided by stakeholders this information should be considered by the Commission in its assessment.

Consultation, timeframe and approach

The Commission should deliver its final report to the COAG Energy Council by no later than 16 March 2018.

The Commission should undertake its review in a consultative manner. In particular, the Commission should consult with current and prospective gas pipeline owners, shippers and consumers in the Northern Territory and, if relevant, the Australian Competition and Consumer Commission. The Commission should work closely with the GMRG and Northern Territory Government in the development of its recommendations.