



Review into the scope of economic regulation applied to covered pipelines

Final report

The Australian Energy Market Commission today released a package of recommended changes to how gas pipelines across Australia are regulated.

Final report

The AEMC has published a final report for the review into the regulation of covered pipelines. It includes recommendations to improve the economic regulation of full and light (together referred to as 'covered') pipelines across Australia. The purpose of these changes is to make it easier and less costly to move gas to where it is needed the most.

This final report follows the AEMC's 2016 east coast gas market review, which made recommendations to improve the operation of gas markets and make it easier to buy and sell gas across the east coast of Australia. The review's recommendations were approved by the COAG Energy Council and are now being implemented by the Gas Market Reform Group.

The natural gas export industry has become a significant driver for gas markets in eastern Australia. This has affected gas supply to gas fired electricity generators, industrials and other consumers on the east coast.

In addition, the 2016 Australian Competition & Consumer Commission (ACCC) inquiry into the gas industry concluded that there was monopoly pricing of transmission pipeline services. Gas pipeline users and consumers considered that prices and other terms to access gas pipeline services have been unfair.

As a result, the COAG Energy Council requested that the AEMC undertake this review into the economic regulation of covered pipelines to address these issues for distribution and transmission pipelines. This framework has not been comprehensively reviewed since the first national framework for the regulation of natural gas pipelines was introduced in 1997.

Gas pipelines in Australia are regulated under a negotiate-arbitrate framework. Pipeline service providers and prospective users negotiate the terms, conditions and prices for access to pipeline services. Negotiation is supported by information disclosure and regulatory decisions. Arbitration can be used if a deal cannot be agreed.

Recommendations

The AEMC has examined the framework for the economic regulation of covered pipelines to improve negotiation outcomes for pipeline users and lower prices for consumers, and has proposed 32 recommendations.

The AEMC recommends that all expansions to the capacity of covered pipelines be economically regulated in the same way as the original pipeline. This addresses the ACCC's concern that under the current rules, an expansion of the capacity of a covered pipeline may not be subject to regulation. This may provide the pipeline owner with the opportunity to use its market power in negotiations with users who seek to use that expanded capacity. The AEMC's recommendation is expected to result in services on the expanded capacity not being monopolistically priced.

The AEMC also recommends a new approach for the regulator to determine which pipeline services should be specified as 'reference services'. 'Reference services' are those services for which the regulator approves prices, terms and conditions. As a result of this change the regulators are expected to approve a larger number of reference services. This will result in more services being efficiently priced and will place a greater constraint on the use of market power by pipeline owners.

The AEMC has made 32 recommendations to improve the regulatory regime for covered pipelines

Recommendations also address regulatory decision making to lower regulatory costs for pipeline owners and regulators.

The recommendations enhance the framework for the regulatory assessment of efficient costs to lower prices.

In addition, the AEMC has designed an improved financial and pipeline usage and capacity information reporting regime. The purpose of this is to make pipeline users better informed to negotiate fairer prices, terms and conditions for pipeline services to transport gas.

The AEMC has also made recommendations to the dispute resolution framework to improve access to dispute resolution and outcome certainty as well as create a more credible threat to motivate fair access negotiations.

In conducting this review, the AEMC has found that the separate gas sector reforms that have taken place recently may not operate together smoothly. It recommends that it be tasked with reviewing all the forms of regulation applied to pipelines so that the recent reforms pull together, to maximise the benefits for pipeline users and gas consumers.

If the recommendations from this review are adopted in full, then pipeline users and gas consumers will benefit from lower prices and fairer terms and conditions of access to pipeline services.

The recommendations of the review fall under two packages, rule changes that can be actioned immediately through a rule change request to the AEMC and law changes that trigger subsequent rule changes. The AEMC recommends that both packages be implemented as soon as possible so as to apply to access arrangement reviews scheduled for 2020.

Scope of the review

The COAG Energy Council requested the AEMC to:

- make recommendations on any amendments to Parts 8 to 12 of the National Gas Rules that it considers necessary to address concerns that pipelines subject to full regulation are able to exercise market power to the detriment of economic efficiency and the long term interests of consumers
- consider whether the access dispute resolution mechanism that is set out in the NGR and National Gas Law (NGL) should be amended to more effectively constrain the exercise of market power by pipeline service providers, and become more accessible to shippers
- examine the issues in Parts 8 to 12 that the 2016 ACCC gas inquiry report identified, namely reference service definition, extension and expansion requirements and the arbitration framework
- consult with stakeholders on additional issues in Parts 8 to 12
- work closely with the Gas Market Reform Group.

Parts 8 to 12 of the National Gas Rules

Parts 8 to 12 of the National Gas Rules (NGR) set out how covered (light and full regulation) gas transmission and distribution pipelines are regulated by either the Australian Energy Regulator or the Economic Regulation Authority of Western Australia. These parts of the NGR include rules on the access arrangement process, information disclosure, revenue and price calculations, access terms and conditions, and an arbitration framework.

Ongoing redesign of Australia's gas markets

This review follows the AEMC's 2016 east coast gas market review which made recommendations to improve the operation of gas markets to make it easier to buy and sell gas across the east coast of Australia. The gas market recommendations were approved by the COAG Energy Council and are now being implemented by the Gas Market Reform Group. These market reforms include:

- concentrating trade at two trading hubs to improve liquidity

If the recommendations from this review are adopted in full, then pipeline users and gas consumers will benefit from lower prices and fairer terms and conditions of access to pipeline services.

- introducing new ways to trade unused pipeline capacity so buyers and sellers have more flexibility
- providing more and better information so buyers and sellers of gas can make informed decisions
- developing standard products and information to facilitate trade across different locations
- reducing barriers to entry to increase competitive pressure on prices.

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