



INFORMATION

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New rules for stronger regulation of covered gas pipelines

The AEMC has made a final rule to implement a range of improvements designed to help gas pipeline users negotiate lower prices and better deals. This will make it cheaper to move gas around the market, helping to keep gas and electricity prices for consumers as low as possible.

Final rule to improve gas pipeline regulation

The AEMC has made a final rule that amends the National Gas Rules (NGR) to improve the economic regulatory framework that applies to covered transmission and distribution natural gas pipelines across Australia.

Covered pipelines are those pipelines that are regulated under Parts 8 to 12 of the National Gas Rules by the Australian Energy Regulator or the Economic Regulation Authority of Western Australia.

The final rule includes amendments to existing rules and the introduction of new rules. Together, these will assist the regulators to make better informed decisions on reference services, access arrangements and the efficient allocation of costs. In addition, the final rule will improve market information, support effective negotiations and improve access to services provided by these pipelines.

While the final rule is largely consistent with the draft rule and the proposed rule submitted by the COAG Energy Council, there are some drafting differences. These changes have been made in response to stakeholder comments and submissions.

The final rule determination addresses five key areas.

Extensions and expansions

The final rule will reduce the ability for service providers to exercise market power over pipeline expansions. The final rule treats all future pipeline expansions as part of the relevant covered pipeline. In addition, existing uncovered extensions to covered pipelines can now be treated as part of the covered pipeline's access arrangement. These changes will reduce the regulatory burden and support improved decision-making by regulators.

Reference services

The final rule introduces a new approach to determine which pipeline services should be specified as reference services for a full regulation pipeline's access arrangement. This is expected to result in more services being specified as 'reference services', enabling the regulator to determine efficient, cost reflective tariffs for those services. The final rule includes new criteria for determining appropriate reference services, and a new process that requires the identification of reference services at the start of an access arrangement assessment process. This provides users with greater opportunity for meaningful input into which services should have regulator-determined tariffs.

Access arrangements

A number of amendments made will improve the access arrangement process by facilitating greater stakeholder engagement. Adjustments to the access arrangement assessment process will provide more time for stakeholder engagement in order to enable the regulator to make more informed decisions in the long-term interest of consumers. The final rule removes limitations on regulatory discretion applied to certain elements of an access arrangement so the regulators have clear power to make decisions that best contribute to the national gas objective on all aspects of an access arrangement proposal.

Determining efficient costs

The final rule will clarify the assessment criteria for capital expenditure, cost allocation requirements and non-tariff terms and conditions. These changes are aimed at enabling the regulators to determine more efficient tariffs as well as non-tariff terms and conditions set in access arrangements so that costs and risks can be appropriately allocated. This will assist the regulators in setting tariffs so that pipeline users do not pay for assets or services that they do not use.

Negotiation and information

The final rule will strengthen information reporting obligations on full and light regulation pipelines. The amendments extend Bulletin Board reporting requirements to all covered transmission pipelines. Other amendments require certain capacity and usage information to be disclosed on covered distribution pipelines and require financial information, similar to that for non-scheme pipelines under Part 23 of the NGR, to be disclosed on light regulation pipelines. These amendments provide users and prospective users with more relevant, timely and accessible information, to better inform their negotiations with service providers. These changes will support the amended negotiation process that is included in the final rule.

Implementation of the final rule

The majority of the final rule will come into effect on 21 March 2019. This will enable the new rules to be in place for the regulators' assessment of revised access arrangement proposals as they become due.

The Commission has included specific transitional arrangements for those full regulation pipelines that are currently, or will soon be, engaged in an access arrangement revision process to enable a smooth adoption of the new and amended rules.

Access arrangement proposals submitted after June 2020 will be subject to all of the new access arrangement requirements made in the final rule.

Many of the new requirements on information disclosure also commence on 21 March 2019. However, a number of these requirements specifically allow time for parties to put in place processes to enable compliance with the new rules.

Background

This final rule was made following a rule change request submitted by the COAG Energy Council on 5 October 2018. The request adopted many of the recommended improvements from the AEMC's final report of the review into the scope of economic regulation applied to covered pipelines, which was published on 3 July 2018.

As a result of extensive stakeholder consultation carried out during that review, the Commission was able to employ a fast-track rule change process, allowing for the final rule and final determination to be made five months after receiving the rule change request.

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