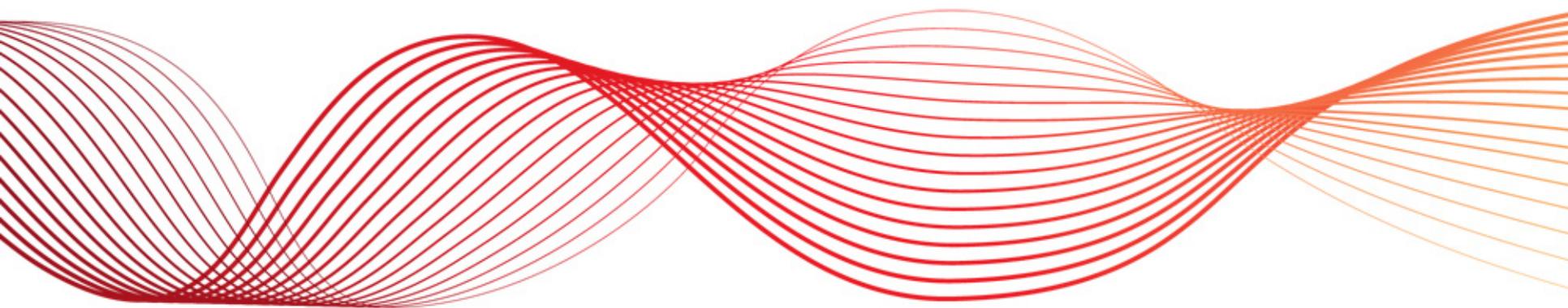


EAST COAST GAS REVIEWS AEMO PERSPECTIVE

November 2016



OVERVIEW OF OUR VIEWS



- The market's current design does face challenges
- The market does need to move forward to address issues and maintain relevance for industry.
- If the AEMC's model is endorsed, the next piece of the reform process will be key in establishing a workable market design – the process must be flexible and able to accommodate changes.
- AEMO will be interested in exploring the challenges and opportunities the new design may present for system operation and system security.

EAST COAST GAS REFORM



- **Clear gas market development roadmap to achieve the Energy Council's Vision**
 - Working to achieve liquid gas trading hubs will benefit all industry players
 - Recommendations to support pipeline capacity trading are critical to the emergence of liquid hubs
 - AEMO has begun to implement recommendations to improve the scope of information on the Bulletin Board
- **Timely and effective implementation the next challenge**
 - Gas and electricity markets are evolving rapidly on the east coast influenced by LNG exports, renewable penetration and coal retirements
 - Industry, government and institutional resources required to implement recommendations in a timely manner → will support the ability of participants to adapt by enhancing trading opportunities

DWGM DRAFT FINAL REPORT



- Current DWGM faces a number of challenges:
 - Supporting greater levels of controllable withdrawals,
 - Increasing concentration of supply sources,
 - Increasing interconnection with other markets.
- There is a need to consider changes to the current market
- AEMC have put forward a potential model for change – Southern Hub Model
 - If the AEMC’s model is endorsed, further work will be required to develop an end-to-end market design.
 - The next stage of the market change process will be important in applying the model to the characteristics of the Declared Transmission System
 - Process should be flexible as the design will likely need to be able to adapt as the challenges are worked through

DWGM DRAFT FINAL REPORT



- While we understand the Energy Council, including the Victorian Government, is yet to respond to the report, if reform was to proceed the following areas related to system security would be a key focus for AEMO.
- **Balancing:**
 - The interaction between the continuous balancing model and maintaining system security is important.
 - Balancing model will need to consider unique characteristics of Victorian system
 - AEMO's balancing role needs to be considered in this context

DWGM DRAFT FINAL REPORT



- **Liquidity and access to capacity:**
 - Liquidity in the commodity market and design of its products will be important to AEMO's balancing role.
 - Ensuring there is efficient intraday allocation of capacity is important so that in response to changing conditions, those who can bring the best priced gas to the market are able to do so.
- **Managing congestion and system constraints**
 - How do rights interact with constraints?
 - Need for efficient management of constraints and congestion will influence the ultimate design

FURTHER THOUGHTS



- DWGM changes are only one piece of the broader reform package and need to be considered in a wider context.
 - Reforms to the pipeline capacity framework are important in supporting the development of the markets
 - The role and future of the STTMs and GSH need to be considered in this context
- GRG process
 - Maintaining momentum will be important given pace of change in industry
 - Strong leadership and clear working structure will be required as there's a need for a strong driving force behind the reform process