

Australian Energy Market Commission (AEMC) Gas Market Scoping Study

Terms of Reference

Background

The purpose of this study is to provide the AEMC with a comprehensive view of the state of the gas market. It will also identify areas of potential improvement within the downstream regulatory and market frameworks that promote improved efficiency in the long term interests of consumers.¹

The AEMC is the rule maker and provides advice on market development for Australia's energy markets. In the gas sector we are responsible for making rules in relation to the economic regulation of transmission and distribution pipeline services, the operation of the Victorian Declared Wholesale Gas Market (DWGM), the Short Term Trading Market (STTM), and other elements of Australia's natural gas markets. The National Gas Law and Rules (NGR) set out the gas market regulatory framework.

Australia's eastern gas market (Queensland through to South Australia and Tasmania) is undergoing a period of major development and change due to the establishment of a liquefied natural gas (LNG) export industry. With construction underway on six LNG trains, annual gas demand is set to more than triple by 2017. In response to these changes, the Standing Council on Energy and Resources (SCER) is implementing a number of new initiatives to provide confidence that gas supply can respond flexibly to market conditions. These include a gas supply hub in Queensland, investigating opportunities to facilitate increased trading of secondary pipeline capacity, improvements to the Gas Statement of Opportunities and enhancements to the Gas Bulletin Board.²

With the introduction of a price on carbon emissions, gas-fired generation was expected to increase, leading to greater convergence between electricity and gas markets.³ The Australian Energy Market Operator's (AEMO's) most recent demand forecasts suggest that substantial new investment in generation capacity will not be required this decade. Noting the difficulty in forecasting electricity demand in the current environment, the AEMC considers that, while further convergence between electricity and gas markets may not be imminent, it is prudent to identify any issues that may impede interoperability in the future.

Given the number of gas related rule changes the AEMC expects to consider this year, and our market development role, the purpose of this study is to provide the AEMC with a comprehensive view of the state of the gas market and identify areas of potential improvement. The study will consider how well the existing frameworks are operating and whether they are expected to continue to efficiently meet the long term interests of consumers in light of the changes underway.

The scoping study covers the downstream parts of the gas market. It will be a relatively high level report that is completed in a short period, but provides sufficient depth to allow the AEMC to use the study as a basis for engagement with SCER, AEMO and gas industry stakeholders on any future work that should be undertaken.

The Assignment

The AEMC is engaging a consultant to undertake a scoping study to better understand the state of Australia's gas markets, and areas of potential improvement, to promote efficiency in the long term interests of consumers.

¹ "Downstream" refers to the gas industry between the transmission pipeline and end user. It does not include well heads, production facilities, land access issues or gas markets upstream of the transmission system.

² See: <http://www.scer.gov.au/workstreams/energy-market-reform/gas-market-development/>

³ Convergence in this context means a greater correlation between short term gas and electricity prices, the interaction between markets in the case of an emergency event and through trading activities of participants across both markets.

Noting the substantial work being carried out by SCER and AEMO in the areas of wholesale gas and pipeline capacity trading, this study will focus on the downstream sector. It will examine whether gas is being efficiently allocated within the economy from transmission networks to end users, and whether the current arrangements are expected to be adequate in light of the changing market. It is important that the study takes account of historic gas market development and the reasons behind the existing market structures.

Part of this study will also consider the degree of harmonisation between existing gas markets along the east coast, including the STTMs, the DWGM, Victorian market-carriage pipeline arrangements and contract-carriage arrangements. With the emerging east coast LNG industry expected to tighten the supply demand balance, it is important to examine whether the current gas market arrangements efficiently support the trade of gas between all major supply and demand centres. Impediments to trade that reduce market efficiency are likely to increase costs faced by consumers. The study will consider whether there is scope for regulatory arrangements to promote more efficient integration in accordance with the national gas objective (NGO).⁴

The study will also look at identifying potential mechanisms that might provide for greater interoperability, risk management and emergency response between the electricity and gas sectors. An increasing number of market participants operate across both the electricity and gas markets through interests in gas-fired generation and gas retailing. Investigating the potential for further alignment between the markets is likely to contribute to reduced operating costs, lower barriers to entry and potentially greater competition, providing benefits for consumers. An objective of this study is to better understand through consultation with industry the potential opportunities, benefits and costs of further integration between the electricity and gas markets.

It is expected that the study will primarily focus on the eastern market. However, broader issues around pipeline regulation may also cover Western Australia and the Northern Territory.

The key output of the scoping study will be a report that provides the AEMC with a comprehensive view of the state of the gas market, identifies potential issues in the downstream gas sector, prioritises their importance, discusses levels of interdependence, and reflects on the ability to make progress to address the issues. Identifying and evaluating solutions will not be part of this work.

It is expected that the study will take around eight weeks and be completed by July 2013.

Content and Issues to be considered

The scoping study will consider (but is not limited to) the following issues:

- Whether the current level of integration of Australia's downstream gas market frameworks is expected to continue to meet the NGO, given the range of potential future outcomes for the gas sector on the east coast.
- Whether the contract-carriage and Victorian market-carriage transmission, planning and investment arrangements are promoting efficient pipeline investment and gas access.
- Whether improvements to gas market interoperability and emergency arrangements with the National Electricity Market might increase efficiency and reduce costs for participants and consumers.
- The extent of consistency between gas and electricity markets, such as market price caps and cumulative price thresholds for the STTM, DWGM and National Electricity Market, and the implications for efficient interaction between the electricity and gas markets.

⁴ The national gas objective, as stated in the National Gas Law, is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

Stakeholder consultation

The AEMC seeks to undertake an open and transparent process in all of its work. This study will include face-to-face stakeholder consultation with industry participants, AEMO, AER and government agencies.

Approach and timing

The AEMC will engage a consultant to assist with undertaking the study. Indicative timing is as follows:

Date	Milestone
April	Request for Proposal of Services released
April	Responses due
May	Successful consultant notified
June	Draft report due to AEMC
July	Final report due to AEMC
	AEMC consideration of final report and discussion with SCER SCO about next steps