

Industry Statement to support the Council of Australian Government's Energy Council Gas Market Development Vision

In response to the Council of Australian Government's Energy Council Australian Gas Market Vision recognising the significant transformation occurring in Australian gas markets and the role of governments in guiding market development, and as stakeholders actively engaged with the Australian Energy Market Commission's East Coast Gas Market and Pipeline Frameworks Review and Review of the Victorian Declared Wholesale Gas Market, the leading energy companies and large users listed wish to outline a series of high level, yet targeted, principles to guide the development process over the near term.

Principle 1 – The need for gas market development and defining the role of policy

Industry supports further development of Eastern Australian gas markets to address current challenges and uncertainties. Proposed changes should support overall productivity and economic efficiency.

- While Australian gas markets have worked well over recent decades the market has in recent years experienced significant change. Conventional sources of oil and liquids rich gas are being depleted. New sources of gas from unconventional sources are more expensive to produce and generally lack liquids. Attracting investment is critical in this regard given that development of unconventional gas reserves is complex, cost intensive and only profitable on a large scale.
- As the nature of gas development shifts and Australia faces international market linkage, these challenges must be carefully managed in order to meet the long term interests of consumers.
- Reform in the face of mounting challenges requires careful consideration with emphasis on governments facilitating development where gaps exist in the market frameworks and improvements on existing arrangements can be quickly realised. These policy led reforms should be market-based and support efficient market outcomes.
- Consistent with the National Gas Objective, reform should *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.*

Principle 2 – A forward gas market development strategy with clear priorities

Industry supports the preparation of an integrated forward development strategy that acknowledges the roles of both industry and government in promoting market development, and identifies reform priorities and market impacts. The plan should facilitate timely development of the market while appreciating the need for industry to manage the transformation.

- In part, a challenge today is the fragmented nature of Eastern Australian gas markets, including existing trading and capacity arrangements, and the difficulty in establishing an agreed and coherent framework that best meets the needs of the market.
- Australian gas markets have evolved over time in a way which has reflected the size and stable nature of the market. Moving forward, we support industry driven reform, but

recognise the value in identifying specific issues, and associated reforms that address new challenges facing the market.

- Sufficient time for change needs to be considered in any decision making process, including appropriate consultation and transitional arrangements, particularly where major change is being proposed. Although the overall objective of policy should be to promote efficient markets, no participant should be materially disadvantaged by unexpected major changes.
- Notwithstanding the above, once priorities are identified, changes should be expedited given the transformation and ongoing uncertainty now facing the sector.

Principle 3 – Improved market information to support trade

Information informs participants, potential new entrants, energy users, governments and other stakeholders about the performance and suitability of gas market arrangements to enable efficient decision making. In the absence of prohibitive costs, industry supports improvements in information availability, transparency and discovery for the purpose of facilitating trade and liquidity, and providing clear price signals.

- The status quo is not sufficient to support the market moving forward. Despite ongoing development and some modest changes, the information on the Eastern Australian gas markets is inadequate to enable participants to respond to and manage risk. Data is fragmented and incomplete across multiple platforms and lacks the necessary frequency.
- The consequence of limited information transparency is also becoming more relevant in light of the market impact of LNG facilities. These developments highlight the need to accurately define and deliver information the market needs, now and moving forward, so as to capture the full benefits of trade.
- Given information asymmetries are genuine impediments to fully functioning markets, industry has some support for the view that the market would be better served by a more centralised and complete reporting framework encompassing both supply and demand sources.
- The challenge is identifying the most appropriate dataset that meets users' needs and can be presented simply as opposed to unconstrained provision of vast amounts of data.

Principle 4 – Improved access to efficiently priced short to medium term capacity

Improving the efficient access and use of pipeline and gas infrastructure is a fundamental component of the gas market. The full benefits of market developments and enhanced trading arrangements require a more effective transportation regime, including capacity trading and access, which encourage efficient market outcomes.

- Accessing capacity is fundamental to market development and must be addressed. Mechanisms to facilitate efficient capacity trading whilst acknowledging existing and new property rights are presently inadequate, particularly for secondary trades where the market may not ensure capacity is directed towards participants who value it most at any given time.
- Effective capacity trading arrangements are essential to develop market liquidity, reduce price divergence, facilitate the development of the forward markets and ensure efficient utilisation of the network. Consideration should be given to all market-based options that facilitate greater access to capacity.

- The preferred mechanism for realising shared use should provide clear signals to commercially incentivise owners to facilitate access.
- Any identified limits on producers and pipelines responding to market developments more dynamically should be examined.
- The benefits of a single pipeline regulatory regime with clear links between revenue and market outcomes should be considered if the existing investment arrangements hinder market development.

Principle 5 – Effective facilitated gas markets

Trading hubs provide an important market reference point. Building upon and resolving identified issues with existing trading hubs is a necessary pre-condition to development of an integrated Eastern Australian gas market.

- While the Wallumbilla Gas Supply Hub has been welcomed and continues to support growing liquidity, the absence of progress in relation to the Short-Term Trading Market and Declared Wholesale Gas Market requires attention.
- Multiple market designs make trading complex and inefficient for participants with each market characterised by specific and enduring limitations. This differs to a widely accepted market with “clean” prices which would encourage greater participation and liquidity.
- Hubs should be designed to facilitate participation and liquidity. Presently, hub characteristics and design leads to a situation where gas retailers are likely to participate, with gas producers, industrial and commercial users and pipelines typically outside of these arrangements, and intermediaries choosing not to participate.
- Within day price signals, trading day definitions, consistency of trading periods, and settlement processes should be set so as to facilitate trade and support a more liquid market including encouraging the development of forward products.

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