



## East Coast Wholesale Gas Market and Pipeline Frameworks Review

### Stage 1 Draft Report published

**The Australian Energy Market Commission has published a Draft Report for Stage 1 of the East Coast Wholesale Gas Market and Pipeline Frameworks Review. The report provides the Commission's draft Stage 1 findings and recommendations and proposes key areas of focus for Stage 2 of the review.**

#### Background

The eastern Australian gas market is experiencing a period of significant growth and change, as conventional gas reserves decline, unconventional gas resources become increasingly important and the influence of international price trends increase.

The establishment of a liquefied natural gas export industry based in Queensland is triggering unprecedented shifts in supply and demand and, consequently, changes in patterns of gas flows. These factors are resulting in a renewed focus on market development and gas supply chain efficiency.

Against this background, at its December 2014 meeting, the COAG Energy Council set its Vision for gas market development and directed the AEMC to review the design, function and roles of facilitated gas markets and gas transportation arrangements on the east coast of Australia.

This review has been structured over two stages. Stage 1 outlines an overall direction for east coast gas market development, including a factbase of current market outcomes and a gap analysis between the Energy Council's Vision and the existing arrangements. It makes recommendations on areas of focus for market reform and opportunities for implementation in the short-term. Stage 2 will more fully develop any necessary medium- and long-term adjustments required to implement the Energy Council's Vision, including the transition path required. This structure is designed to provide early and ongoing insight into the progress being made on the development and implementation of the reform agenda in this important area.

The AEMC has also been asked by the Victorian Government to undertake a detailed review of the pipeline capacity, investment, planning and risk management mechanisms in the Victorian Declared Wholesale Gas Market. The draft report released today incorporates the initial phase of analysis for the Declared Wholesale Gas Market Review which will be followed by further work to be carried out in the latter half of 2015.

#### Stage 1 Draft Report

This draft report provides a clear overview of how Australia's gas markets are currently structured and outlines areas where reforms may be required to accommodate the changing dynamics that LNG exports and increasing coal seam gas production brings.

Existing arrangements have delivered substantial new investment, including in pipeline infrastructure and storage (outside the Declared Wholesale Gas Market). This has facilitated the development of a more interconnected system in eastern Australia, increasing the available supply options to each demand centre.

However, the significant increases in demand and volatility of flows likely to be experienced on the transmission network in the future will test the flexibility of the current arrangements. In particular, challenges in reallocating rights to use pipelines in the short-term may impede the ability of gas to flow where it would be most highly valued.

The Stage 1 Draft Report proposes the following practical initiatives which could be pursued immediately to boost the efficient and effective operation of the gas market:

- improving price transparency through either a survey-based gas price index and/or aggregating existing publicly available information;
- establishing the Bulletin Board as a "one-stop shop" for all gas market data, including enhancing compliance;
- assessing the degree to which additional informational gaps fall within the scope of the Gas Transmission Pipeline Capacity Trading: Enhanced Information rule change and could be addressed under that process;
- establishing a technical working group to begin analysis on the potential simplification of the Short Term Trading Market design with the goal of transitioning these markets to a more focussed balancing market design;
- harmonising the start time of the "gas day", which currently varies across jurisdictions; and
- removing the limitation in the National Gas Law on who can submit rule changes for the Declared Wholesale Gas Market in Victoria.

### **Medium to long term issues**

The draft report identifies a number of complex and interlinked issues that will require more detailed consideration to develop a long term market development plan. These issues will be explored further in Stage 2 of the AEMC's review, including:

- developing options to redesign the Short Term Trading Market and the Declared Wholesale Gas Market;
- considering potential measures to better facilitate pipeline capacity trading;
- introducing capacity rights into the Declared Wholesale Gas Market to better facilitate market-led investment;
- developing a long-term strategy for the location of facilitated markets;
- working with AEMO to develop the market and regulatory frameworks for the Wallumbilla Gas Supply Hub; and
- developing a strategic direction for information provision, including the role of the Bulletin Board.

Issues relating to gas production or the level of competition in the production sector largely fall outside of the Commission's remit. However, we will be working closely with the ACCC as it prepares its Inquiry into Competitiveness of the Wholesale Gas Industry.

The Commission will undertake Stage 2 of the review in the latter half of 2015.

### **Call for submissions on the Stage 1 Draft Report**

Stakeholders are invited to make submissions on the Draft Report by 1 June 2015. A Final Report for Stage 1 of the East Coast Review will be provided to the COAG Energy Council in July 2015.

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