

AEMC Victorian Declared Wholesale Gas Market Review - Forum



November 2016

- Victoria has the largest residential gas demand of any Australian state or territory
- Overall demand is around 200 petajoules per year
- In 2014, approximately 40 per cent of demand was for industrial purposes
 - ~14 per cent is for feedstock (converting gas into other finished products)
 - ~26 per cent is for energy
 - Biggest users produce chemicals, glass, steel, paper, explosives, fertiliser, packaging and food



Qenos plant, Altona – gas is a feedstock to produce plastics & petrochemicals



Australian Paper mill, Maryvale – gas is used for energy purposes

- The Victorian DWGM, Australia's first gas market, was established in 1999
- Key reasons for its establishment:
 - Support full retail contestability
 - Enhance security of supply by encouraging diversity of supply and upstream competition
- A 2004 review of the Victorian DWGM resulted in updates to trading arrangements, which commenced in 2007

- The Victorian DWGM has served participants well
- However, it is unclear if it continues to promote competition in upstream and downstream markets, in the long term interests of consumers
- The commencement of LNG exports from Queensland has caused a fundamental shift in gas market dynamics:
 - Tripling of demand
 - Greater volatility
 - Reduction in long-term contracts and contractual terms
 - Gas prices are increasing

The AEMC's review of the Victorian DWGM

- In March 2015, the Victorian Government engaged the AEMC to review the following mechanisms in the Victorian DWGM:
 - pipeline capacity
 - investment
 - planning
 - risk management
- In May 2016, the Victorian Government extended the timing of the review to allow for the completion of a cost-benefit analysis and for the AEMC to respond to questions raised by stakeholders



- **An inability to hedge price risk**, other than through very long term, illiquid Gas Supply Agreements
- **Decisions on network investment being taken by the Australian Energy Regulator**, exposing consumers to risks
- **Short-term price signals** provided through the spot market reflect immediate demand and supply conditions **only**
- **Current arrangements are complex** and not suited to the transitional shift occurring
- **There is a need for greater flexibility** in buying and selling gas

1. A new **Southern Hub** model with voluntary trading
2. A new mandatory **balancing mechanism**
3. Explicit and **tradeable capacity rights** for entry to and exit from the gas transmission system
4. **Market trials** should be undertaken to assist with the transition
5. The Gas Market Reform Group (GMRG) to implement the AEMC's recommended reforms

Represents substantial change to the current arrangements

AEMC: Thankyou for the work completed to date

- The AEMC has completed extensive analysis and consultation, including applying learning from other countries to identify best practice in a Victorian context
- We look forward to receiving the AEMC's final report by March 2017
- Thanks also to the engagement from stakeholders!



A photograph of a large industrial facility, likely a refinery or chemical plant. The foreground is dominated by a complex network of shiny, reflective metal pipes and valves, some with red and blue accents. In the background, a tall, cylindrical chimney rises, from which a plume of white smoke or steam billows into a bright blue sky filled with wispy white clouds.

Questions?