



## Review into the scope of economic regulation applied to covered pipelines

### AEMC publishes interim report

**The AEMC summarises first round of submissions to the review, and outlines issues for further consideration.**

#### Interim report

The Commission has published an interim report for the review into the regulation of covered pipelines.

The interim report:

- summarises stakeholder submissions to the issues paper
- describes the current regulatory framework for natural gas pipelines
- discusses the issues that submissions have raised in relation to the economic regulation of covered pipelines
- sets out issues for further consideration and inclusion in the draft report.

#### Issues for further consideration

The interim report identifies the following issues for further investigation and inclusion in the draft report:

- the forms of regulation that should be applied to pipelines (including expansions and extensions of pipelines), and the tests that determine which form of regulation should apply
- the appropriateness of the reference service definition
- the efficiency of the access arrangement process
- the methodology to assess the efficient costs of providing the reference service(s)
- role of information disclosure requirements in addressing the bargaining asymmetry between pipeline service providers and prospective users
- credibility of the threat of arbitration, and efficiency of arbitration outcomes.

#### Scope of the review

The COAG Energy Council requested the AEMC:

- make recommendations on any amendments to Parts 8 to 12 of the NGR that it considers necessary to address concerns that pipelines subject to full regulation are able to exercise market power to the detriment of economic efficiency and the long term interests of consumers
- consider whether the access dispute resolution mechanism that is set out in the NGR and National Gas Law (NGL) should be amended to more effectively constrain the exercise of market power by pipeline service providers, and become more accessible to shippers

- examine the issues in Parts 8 to 12 that the 2016 Australian Competition & Consumer Commission (ACCC) gas inquiry report identified, namely reference service definition, extension and expansion requirements and the arbitration framework
- consult with stakeholders on additional issues in Parts 8 to 12
- work closely with the Gas Market Report Group (GMRG).

### **Parts 8 to 12**

Parts 8 to 12 of the National Gas Rules (NGR) set out how covered gas transmission and distribution pipelines are regulated by either the Australian Energy Regulator or the Economic Regulation Authority of Western Australia. These parts include rules on the access arrangement process, information disclosure, revenue and price calculations, access terms and conditions, and an arbitration framework.

### **Background**

At the request of the Australian Government, the ACCC carried out an inquiry into the competitiveness of wholesale gas prices in eastern and southern Australia. The ACCC released its report in April 2016, and made a suite of recommendations. The recommendations included that the COAG Energy Council request the AEMC to review Parts 8 to 12 of the NGR.

On 19 August 2016 the COAG Energy Council released a comprehensive gas market reform package. The package included a request that Dr Michael Vertigan examine the current coverage test that determines whether a gas pipeline should be subject to economic regulation. Dr Vertigan released an examination paper in December 2016, which recommended that the coverage test not be changed at present. However, the paper did recommend the introduction of an information disclosure and arbitration framework for non-scheme pipelines.

The COAG Energy Council reform package also established the Gas Market Reform Group (GMRG) to be chaired by Dr Vertigan. The GMRG designed an information disclosure and arbitration framework for non-scheme pipelines that was passed as Part 23 of the NGR on 1 August 2017.

On 5 May 2017 the COAG Energy Council issued terms of reference to the AEMC to review the scope of economic regulation applied to covered transmission and distribution pipelines, as recommended by the ACCC inquiry.

The AEMC published an issues paper on 27 June 2017, commencing stakeholder engagement for the review.

### **Next steps**

The AEMC plans to publish a draft report in February 2018.

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