

East Coast Wholesale Gas Market and Pipeline Frameworks Review enters next stage

The Australian Energy Market Commission today released the Stage 1 report for its review of the east coast gas market and outlined priorities and timelines for Stage 2.

Stage 1 recommends a package of immediate actions for consideration by the COAG Energy Council which would make it easier to buy and sell gas.

More recommendations for the efficient long-term development of gas markets will be developed throughout Stage 2, with draft recommendations due to be provided to the Energy Council by the end of 2015.

AEMC Chairman, John Pierce, said the AEMC east coast gas review was focused on how to get gas to consumers in the most efficient way once it leaves the ground.

“Getting gas to well-functioning markets is fundamental to consumers being able to know whether the gas price reflects underlying demand and supply conditions,” Mr Pierce said.

“Significant investment in pipelines over the past 15 years means the east coast market is now interconnected, but as export markets open up and unconventional gas resources come online, we need gas to flow easily to where it is most needed.

The Stage 1 Final Report, presented to COAG Energy Council Ministers today, includes recommendations to improve price transparency with a new gas price index to show price trends over time starting in 2016.

The report also includes recommendations to reduce market complexity by highlighting the need for the same start time for gas trading in all markets.

Other recommendations include the ability for rule change requests relating to the Victorian gas market to be submitted by any stakeholder, aligning Victorian requirements with the rest of the east coast markets; and the possible expansion of information required to be published on the Natural Gas Services Bulletin Board. This last recommendation is being implemented through the Enhanced Information for Gas Pipeline Capacity Trading rule change currently underway.

Mr Pierce said Stage 2 of the review will develop further options to promote long-term gas market development, including:

- The design of wholesale markets with consideration of options for physical and virtual trading hubs and changes to the short-term trading market and gas supply hub models.
- Measures to facilitate efficient investment in, and usage of, pipelines including measures to enable secondary trading of contracted but unutilised pipeline capacity.
- Establishing a one-stop shop for gas market data to improve transparency, lower the costs associated with pipeline capacity trading and improve the operation and monitoring of the market.

The AEMC's east coast gas review Stage 1 Final Report recommends a package of immediate actions for consideration by the COAG Energy Council which would make it easier to buy and sell gas.

Extensive consultation is planned to develop these options over the next six months.

The AEMC is also reviewing the Victorian Declared Wholesale Gas Market to identify whether reforms are required to enhance the liquidity, transparency and flexibility of the Victorian wholesale gas market in light of the structural changes across the entire east coast.

“As Australia’s first gas market, with relatively high levels of retail competition and a highly meshed transmission network, there are material differences between the Victorian system and other jurisdictions,” Mr Pierce said.

This review will continue throughout 2015 to consider whether objectives for the Victorian market should change in light of the broader east coast environment, including its potential role in providing an efficient reference price; and the capacity for inter-regional trade.

Consultation on Stage 2 and the review of the Victorian Declared Wholesale Gas Market will be held in the months ahead.

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EASTERN AUSTRALIA NATURAL GAS MARKET TODAY

The way gas is produced, traded and used is changing rapidly. We need competitive, efficient markets to keep the cost of gas supply to consumers as low as possible

GAS MARKETS ARE EVOLVING



The east coast market is now interconnected and natural gas flows are more dynamic, moving across the entire network in response to demand



Long term contracts between gas producers and their customers are coming up for renewal



Customers today have more options around purchasing flexibility which can include a mix of long-term contracts and gas from spot markets



The domestic market is adjusting to emerging exposure to international gas prices

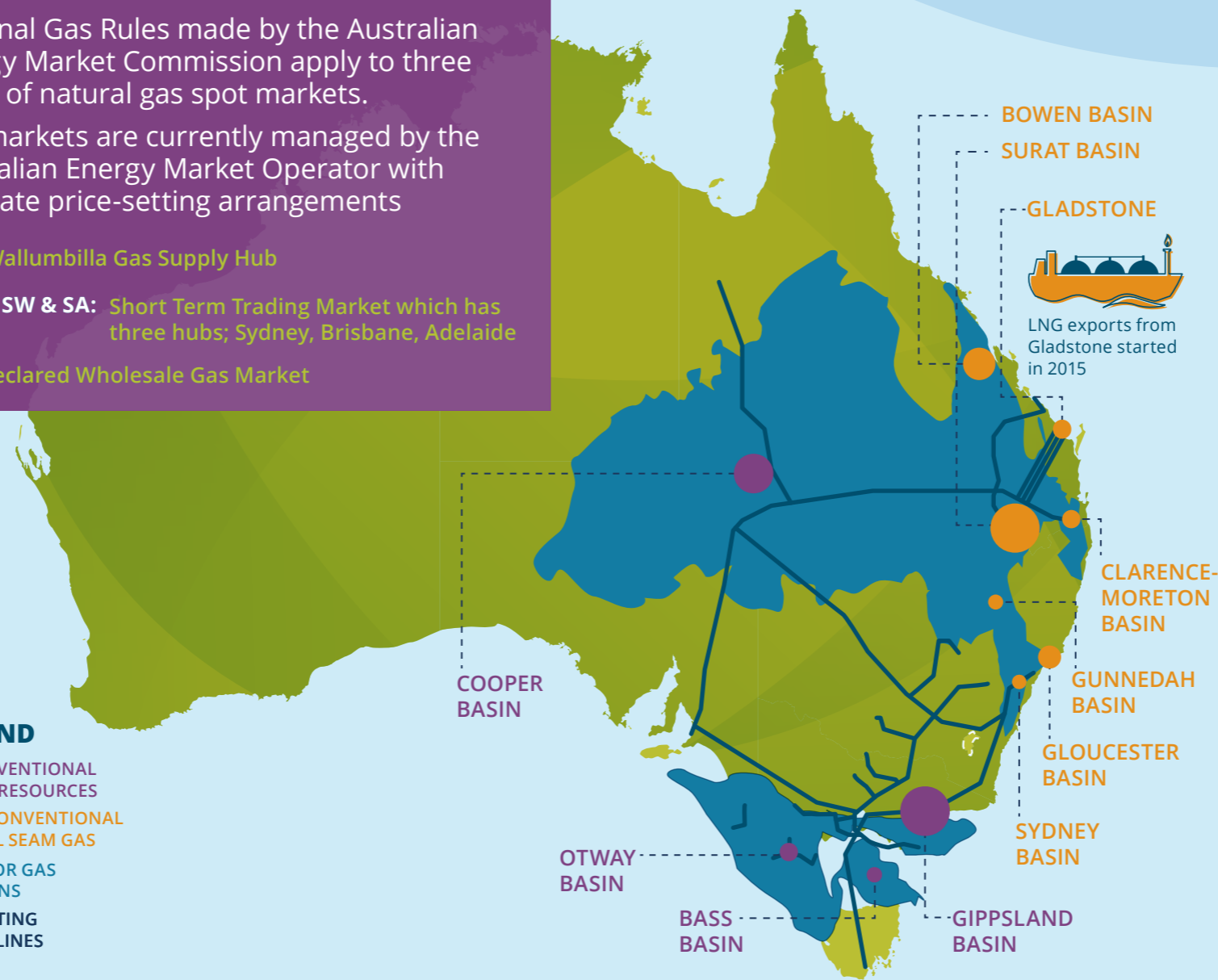
National Gas Rules made by the Australian Energy Market Commission apply to three types of natural gas spot markets. The markets are currently managed by the Australian Energy Market Operator with separate price-setting arrangements

QLD: Wallumbilla Gas Supply Hub

QLD, NSW & SA: Short Term Trading Market which has three hubs; Sydney, Brisbane, Adelaide

VIC: Declared Wholesale Gas Market

- LEGEND**
- CONVENTIONAL GAS RESOURCES
 - UNCONVENTIONAL COAL SEAM GAS
 - MAJOR GAS BASINS
 - EXISTING PIPELINES



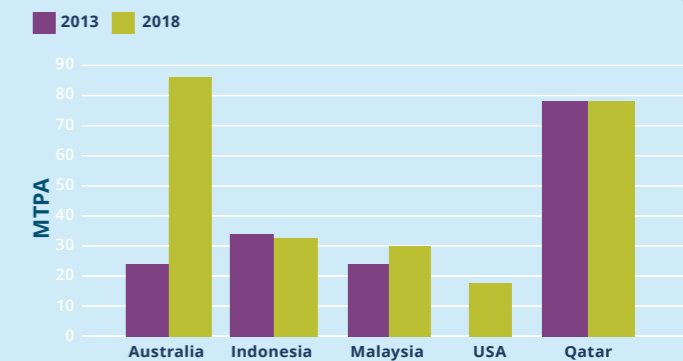
LNG GLOBAL TRADE

A PERIOD OF SUPPLY GROWTH

- Australia's supply wave is ramping up and we are set to become the world's largest LNG exporter by 2018
- Gas used for LNG production at Gladstone will be nearly three times higher than east coast domestic demand

LIQUEFACTION CAPACITY BY COUNTRY IN 2013 AND 2018

(Existing and under construction projects expected by 2018)



SOURCE: International Gas Union World LNG Report 2014

LNG PRICING

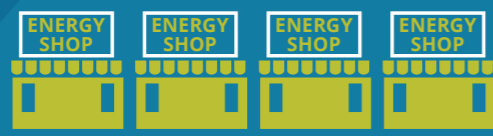
- Australian LNG is exported to Asia, where LNG prices are linked to oil
- Some domestic gas contracts are being linked to oil due to the influence of LNG exports
- These pricing structures will create new challenges for gas users managing risk

HOW GAS IS BOUGHT AND SOLD



PRODUCERS

Sell direct to retailers and big industrial customers



RETAILERS AND BIG INDUSTRIAL CUSTOMERS

Once retailers and big industrial customers have sourced their gas they negotiate other contracts with transmission and distribution networks to transport gas to end users



TRANSMISSION PIPES

Mostly unregulated with negotiated contracts



DISTRIBUTION PIPES

The major distribution pipelines are regulated with reference prices set by the Australian Energy Regulator



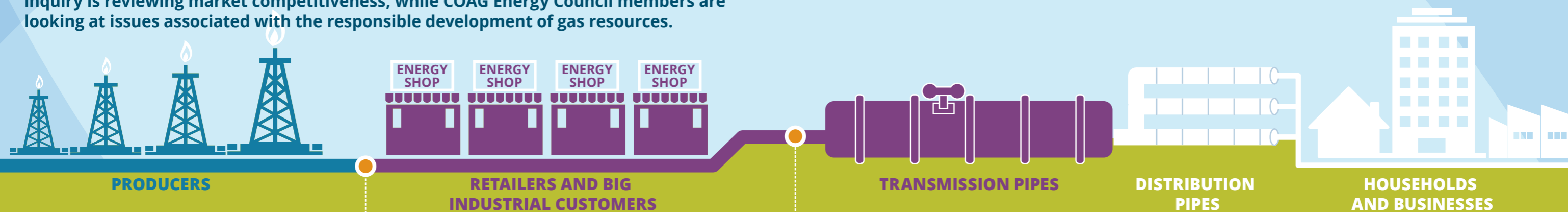
HOUSEHOLDS AND BUSINESSES

Decisions on whether pipelines should be regulated are made by energy ministers in each jurisdiction depending on degree of pipeline competition in specific areas and following recommendations from the National Competition Council

AUSTRALIAN ENERGY MARKET COMMISSION – EAST COAST WHOLESALE GAS MARKET AND PIPELINE FRAMEWORKS REVIEW: STAGE 1 FINAL REPORT 23 JULY 2015

Developing the markets to improve how gas is bought and sold, making it easier to get gas to where it is most valued

The AEMC reviews are looking at how gas – once it leaves the ground – can get to consumers in the most efficient way. This work will provide a framework for developing wholesale gas markets and transmission pipeline arrangements which deliver more transparency and greater flexibility in a rapidly changing sector. The ACCC East Coast Gas inquiry is reviewing market competitiveness, while COAG Energy Council members are looking at issues associated with the responsible development of gas resources.



IMMEDIATE ACTIONS TO MAKE IT EASIER TO BUY AND SELL GAS AEMC STAGE 1 RECOMMENDATIONS

- Improving price transparency**
A new ABS gas price index to show price trends over time starting in 2016.
- Reducing market complexity**
Ensuring the same start-time for gas trading in all markets.
- Level playing field (Victoria)**
Reducing barriers to making rule changes in the Victorian gas market, so all east coast markets align.
- More information to help trading**
Increasing the amount of information available to the market to help increase the use of contracted but unutilised pipeline capacity.



WHOLESALE MARKET REDESIGN

New options to enable gas to be bought and sold in the most efficient way via a liquid wholesale market that delivers a clear reference price. This work will consider both the short-term trading market and gas supply hub models, and options for physical and virtual trading hubs.



Discussion paper on possible wholesale market designs
August 2015

Consultation on discussion paper
September 2015



PIPELINE CAPACITY USAGE AND INVESTMENT

Measures to facilitate the efficient transportation of gas, and how access to transmission pipelines is bought and sold. To include investigation of access to capacity sold by pipelines, and secondary trading of contracted but unutilised pipeline capacity so gas supply can most effectively meet demand.



Discussion paper on options to improve pipeline capacity trading
September 2015

Consultation on discussion paper
September 2015



IMPROVING PRICE TRANSPARENCY (BULLETIN BOARD)

Establishing a one-stop shop for gas market data to improve transparency and improve the operation and monitoring of the market.



Consultation on rule change request
July/August 2015

Working group consultation feeding into Review draft recommendations
August/September 2015

ADDRESSING CHANGE IN THE VICTORIAN DECLARED WHOLESALE GAS MARKET

Identifying whether reforms are required to enhance the liquidity, transparency and flexibility of the Victorian wholesale gas market given the structural changes across the entire East Coast. As Australia's first gas market, with relatively high levels of retail competition and a meshed transmission network, there are material differences between the Victorian system and other jurisdictions.

- Consultation paper
September 2015
- Feedback on consultation paper
September 2015



East Coast Wholesale Gas Market and Pipeline Frameworks Review

Stage 1 complete, Stage 2 commences

The Australian Energy Market Commission has started detailed work on options to promote the long-term development of gas markets, building on recommendations for immediate actions released today by the East Coast Wholesale Gas Market and Pipeline Frameworks Review.

Background

Australian gas markets are experiencing a rapid transition as conventional gas reserves decline, unconventional gas resources become increasingly important, gas pipeline and storage infrastructure improves, and gas exports begin from the eastern Australian gas market.

Currently, most gas is traded bilaterally via long-term contracts. Unlike electricity, there is no national wholesale market for gas, which reduces price transparency.

At its December 2014 meeting, the COAG Energy Council asked the AEMC to review the design, function and roles of facilitated gas markets and gas transportation arrangements for the first time.

Stage 1 of the review is now complete with the stage 1 final report presented at the Energy Council's July 2015 meeting. Further options to promote long-term gas market development are being explored by the review's second stage. A stage 2 draft report will be provided at the Energy Council's December 2015 meeting.

The Victorian Government has also asked the AEMC to undertake a detailed review of the pipeline capacity, investment, planning and risk management mechanisms in the Victorian Declared Wholesale Gas Market. The Stage 1 Final Report released on 23 July 2015 incorporates initial analysis for the Declared Wholesale Gas Market Review, with further work to be carried out during a parallel review, also due for completion in 2016.

Stage 1 Final Report

The East Coast Gas Review Stage 1 Final Report provides an overview of how Australia's gas markets function and outlines areas where reforms may be required to accommodate the changing dynamics created by LNG exports and coal seam gas production.

The report recommends four immediate actions for consideration by the Energy Council to enhance the transparency and efficiency of the market. These are:

A new gas price index to improve price transparency

We have recommended the development of a survey-based gas price index that would reflect trends in prices payable under bilateral contracts over time. The index would be compiled by the Australian Bureau of Statistics (ABS) as an extension of its existing Producer Price Index, and would survey large users and retailers that purchase gas directly from producers. The methodology, data collection process, confidentiality arrangements and other issues would be developed between the AEMC, the ABS and industry, with implementation possible from the December 2015 quarter.

Reducing complexity with harmonised gas market start times

The timing of the gas trading window differs across the east coast, adding complexity and costs for parties that operate across multiple markets, and posing barriers to moving gas between markets. The AEMC is recommending that the Energy Council submit a rule change request to harmonise the gas day start time across the east coast.

Removing restrictions on who is able to propose rule changes for the Victorian Declared Wholesale Gas Market

We have recommended the Energy Council change the National Gas Law (NGL) that would enable requests for change to be submitted by a broader range of market participants in line with other east coast markets. Currently requests to change the rules governing the Victorian market can be made only by the Victorian Government or the Australian Energy Market Operator, effectively posing a barrier to other stakeholders to influence market development.

Enhancing information to improve gas pipeline trading capacity

Consultation has already started on an Energy Council rule change request to increase the amount of information that gas market participants are required to provide to the Australian Energy Market Operator (AEMO) for publication on the Natural Gas Services Bulletin Board. The rule change is designed to enhance gas pipeline trading capacity by lowering costs, increasing awareness of gas flows and improving AEMO's monitoring and operational capacity.

While the starting point for the Commission's assessment will be the Energy Council's rule change request, we also intend to consider whether there are any other informational gaps that fall within the scope of the proposed rule change that could also be dealt with at this time. This could provide an efficient and timely way of addressing information gaps that require changes to be made to the rules.

Stage 2 Consultation

Stage 2 of the East Coast Wholesale Gas Market and Pipeline Frameworks Review will develop more options to promote long-term gas market development and enable the rules governing the markets and pipelines to be fit for purpose in the new gas environment.

Key work to be undertaken as part of Stage 2 includes:

Reviewing the efficiency of the wholesale gas markets

The Commission will consider the role and functions of the wholesale markets on the east coast, in light of their development and recent performance. In particular, the review will reassess the objectives of the Short Term Trading Market, its interaction with the Gas Supply Hub model, and assess the relative merits of physical and virtual trading hubs, considering their design, function, number and location. The role and function of hub services will also be considered.

Maximising pipeline trading capacity

Stage 1 of the review has found that some aspects of the pipeline frameworks on the east coast may be impeding the reallocation of contracted but unutilised pipeline capacity. Stage 2 will further investigate the effectiveness of the frameworks and consider ways to facilitate secondary capacity trading. This more detailed work will also assess whether the existing third party access regime is likely to remain fit for purpose.

Establishing a one-stop shop for gas market data

Stage 2 of the review will consider the strategic direction for information provision to support a liquid wholesale gas market.

This work will consider the long term role and function of the Bulletin Board, including consideration of the appropriate content; the timeliness and reliability of information; data formatting requirements; the compliance and enforcement framework; and the future governance of the Bulletin Board to support its continued development as needed.

Victorian Declared Wholesale Gas Market Review

The COAG Energy Council also asked the AEMC to review the Victorian Declared Wholesale Gas Market to identify whether reforms are required to enhance the liquidity, transparency and flexibility of the Victorian wholesale gas market in light of the structural changes across the entire east coast.

The first stages of this work were undertaken as part of Stage 1 of the East Coast Gas Review.

The Victorian Declared Wholesale Gas Market Review will continue throughout 2015 as a stand-alone review (separate to the East Coast Gas Review), and will consider whether objectives for the Victorian market should change in light of the broader east coast environment, and whether the current market design is achieving its objectives.

The AEMC will facilitate a series of workshops throughout both Stage 2 of the East Coast Gas Review, and the Victorian Declared Wholesale Gas Market Review

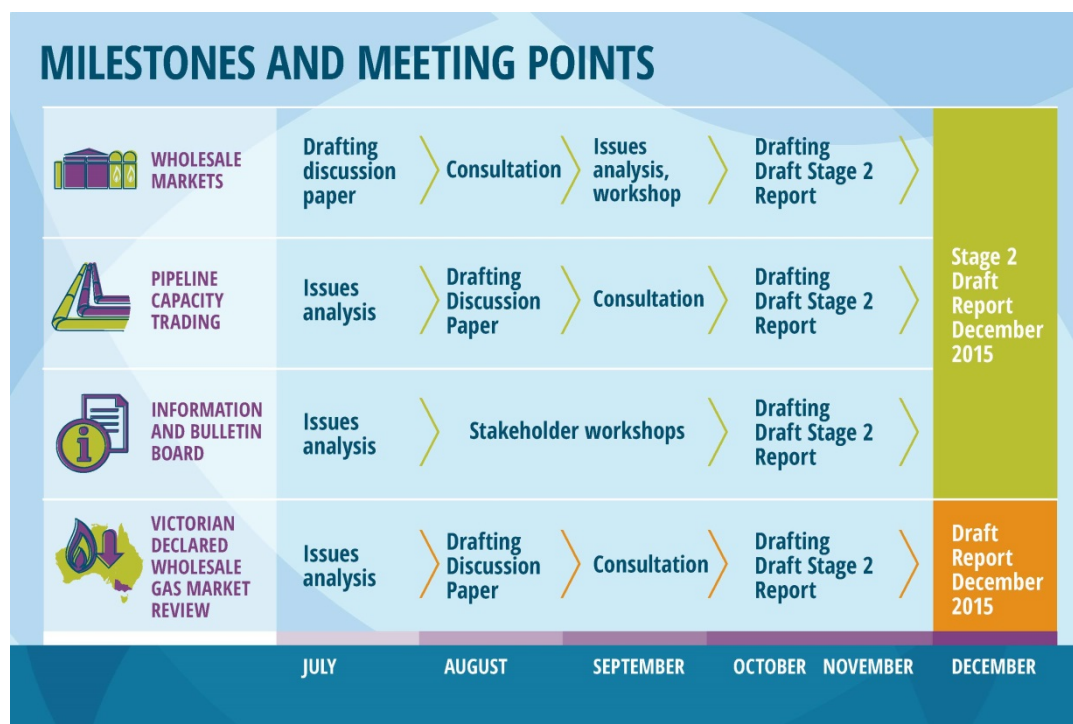
It will also consider the Victorian market's potential role in providing an efficient reference price for all east coast gas markets, and the capacity for inter-regional trade.

Next steps

In keeping with our Stage 1 recommendation to improve price transparency through the introduction of a wholesale gas price index, the AEMC will facilitate a workshop between industry and the ABS on 18 August 2015 at the AEMC's offices in Sydney. An agenda will be circulated closer to the meeting.

Register your interest to attend the workshop at aemc.gov.au.

Consultation as part of Stage 2 of both the East Coast Gas Review and Victorian Declared Wholesale Gas Market Review will be extensive over the coming months, as outlined below:



Stakeholders will be invited to make submissions to AEMC discussion papers on wholesale markets, pipeline capacity trading and the Victorian Declared Wholesale Gas Market.

Stakeholders are also invited to express their interest in being participants in a series of workshops to be held from August to early October related to the Information and Bulletin Board workstream. Please register your interest to attend the workshop by emailing Matt Unicom at matt.unicomb@aemc.gov.au by 31 July 2015.

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