



Wholesale Gas Markets Discussion Paper published

Submissions open on Wholesale Gas Markets Discussion Paper

Development of a liquid wholesale gas market

The objective of the Wholesale Gas Markets Discussion Paper is to further progress the debate on design options that can deliver the COAG Energy Council's Vision for Australia's future gas market. This work builds on our analysis presented in the Stage 1 report in July. Feedback received through the consultation process will be considered by the Commission as we prepare the Stage 2 Draft Report, which will be considered by Ministers at the December 2015 Energy Council meeting.

While natural gas is growing in importance to the Australian economy with the development of an LNG export industry on the east coast, some domestic gas users report facing difficulties negotiating new contracts. The size of the LNG demand, relative to domestic consumption, combined with the inherent variability associated with supply from coal seam gas wells, will likely stimulate the need for more flexibility in the way participants buy and sell gas.

The changing nature of the east coast gas market highlights the importance of achieving the Energy Council's Vision of a liquid wholesale gas market.

Achievement of the Energy Council's Vision requires the creation of a self-reinforcing loop that encourages both buyers and sellers of gas to participate in facilitated markets. More participants and greater traded volumes lead to more meaningful pricing signals, reflective of underlying demand and supply conditions, giving sellers and buyers confidence that the market can support their needs. As trading volumes increase, financial risk management tools can be developed, further strengthening confidence in the market.

High level market design concepts for consultation

The terms of reference for this review require the AEMC to consider the number and type of facilitated markets on the east coast, taking into account the current arrangements and changing gas market conditions.

The transfer of ownership and pricing of gas takes place at defined locations on a gas network called hubs. Broadly, there are two types of hub designs: physical and virtual.

Physical hubs can provide strong locational signals on the price of gas at a specific point in the network, as title transfer occurs at well-defined locations on the pipeline system. Multiple physical hubs, and the need to source pipeline capacity to transport gas to and from hub locations, can have a negative impact on trading liquidity and may therefore not provide meaningful price information associated with a liquid "market". This is because not all participants are likely to be able to access all physical points on the network.

Virtual hubs allow for title transfer of gas anywhere within the definition of the hub, thereby providing participants with greater trading flexibility and promoting liquidity. For instance, in Europe a virtual hub is often defined as the entire gas transmission system of a country. Virtual hubs typically require a system for allocating transmission capacity into and out of the hub area and can be more complex to balance.

Three high level market design concepts have been developed by the AEMC as a way of seeking targeted feedback from stakeholders. While these concepts have been prepared with the Energy Council's Vision in mind, they have not yet been tested against the assessment framework set out in Appendix A of the Discussion Paper and do not represent any preferred view. They are also not an exhaustive list of options and the Commission is interested in understanding stakeholders' views on these and other designs that could meet the Energy Council's Vision.

The three design concepts set out in the Discussion Paper range from multiple physical hubs to two large virtual hubs and are briefly summarised below.

Concept 1: Multiple physical hubs

This model involves Gas Supply Hubs at Wallumbilla, Moomba, Longford, Iona and Gladstone, all of which represent physical hubs close to production and storage. Separate balancing arrangements are located at major demand centres in Adelaide, Brisbane, Melbourne, Sydney and potentially Canberra.

As trading liquidity would be split across multiple locations, a question exists as to whether a liquid and meaningful reference price is likely to emerge at one of the hubs given the size of the east coast gas market.

Concept 2: Northern and southern virtual hub

Concept 2 involves the establishment of two virtual hubs on the east coast, namely:

- a new virtual hub in the northern region that encompasses the Roma to Brisbane Pipeline and the current Wallumbilla hub; and
- a virtual hub in the south covering the entire Victorian Declared Transmission System.

The intention of Concept 2 is to concentrate trading liquidity at two hubs that are reflective of the different demand and supply characteristics in these two regions, in order to foster the development of a meaningful reference price for gas. Separate balancing mechanisms are located at Adelaide and Sydney, which are outside of the virtual hub definitions.

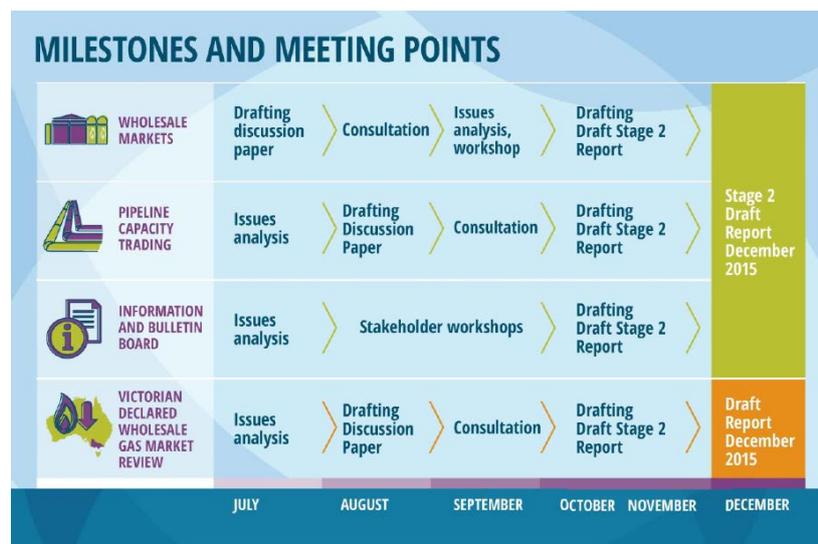
Concept 3: Two large virtual hubs covering the east coast

Concept 3 is an extension of Concept 2 and involves the establishment of a northern and southern virtual hub that, together, cover the entire east coast. Concept 3 further concentrates the trading liquidity in each of the northern and southern hubs by dividing the entire east coast into two definitions. There would not be a requirement for separate balancing arrangements at demand hubs as balancing would be catered for within each virtual hub.

Next steps

Submissions to the Wholesale Gas Markets Discussion Paper close on 10 September 2015. Feedback from stakeholders through the consultation process will inform the Commission's recommendations in the Stage 2 Draft Report.

As outlined in the Stage 1 Report, there are four workstreams being progressed as part of Stage 2 of the review. These are illustrated in the below. The Wholesale Gas Markets Discussion Paper relates to the wholesale markets workstream.



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