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# East Coast Gas Market Review

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## A short history of the east coast gas market.....

- Initial development (60s and 70s) underpinned by:
  - long term (~30 yr) contracts backed by government or government-mandated monoposony buyers;
  - small number of large producers (or producer JVs)
- Subsequent, multi-decade period characterised by:
  - steady, annual demand growth;
  - low stable prices, isolated from global energy markets
  - depleting conventional reserves (and, as recently as 2006, the prospect of a PNG pipeline)
- Mid-2000s 'technological revolution' in CSG extraction
  - three-fold increase in domestic production
  - LNG exports establish link to global energy prices
  - late 2014, \$100/bbl oil becomes \$50/bbl.....

# Today: COAG Energy Council's Gas Market Vision

*The Council's vision is for the establishment of a liquid wholesale gas market that provides market signals for investment and supply, where responses to those signals are facilitated by a supportive investment and regulatory environment, where trade is focused at a point that best serves the needs of participants, where an efficient reference price is established, and producers, consumers and trading markets are connected to infrastructure that enables participants the opportunity to readily trade between locations and arbitrage trading opportunities.*

## A response to unprecedented forces for change

# COAG Energy Council's Gas Market Vision

## Some observations on the vision

- Strong focus on liquidity of markets, price discovery, trading and arbitrage
  - *these are all 'means', rather than 'ends'*
- Suggestion that 'market signals for investment and supply' would be improved through such price discovery and trading
  - *implies there are potential supply side efficiencies*
- No explicit statement of overarching objective
  - *the NGO, and its focus on 'efficiency for the benefit of consumers' would be a helpful reference point*

# Adopting 'market efficiency' as the real agenda...

- Evidence of potential for improved supply side flexibility
  - 'Gas shortages' – a high price or unmet demand problem?
  - Capacity shortages/under-utilisation of existing pipelines?
  - Pipeline adaptation to changes in predominant direction of flow?
  - Management of the ramp gas challenge?
  - Speed and ubiquity of transition to LNG netback pricing?
- Evidence of potential for improved demand side flexibility
  - Reduce constraints on ability to manage future price risks
  - Reduce constraints on ability to manage near and long term quantity risks
  - Improved ability of large end-users to bypass wholesale intermediaries

# Candidate focus areas for 'market efficiency' agenda

- Are there market-related barriers to entry/expansion by new/existing producers?
- Is there potential for improving individual buyer flexibility?
  - without ready access to markets, large gas users must pay aggregators to manage their demand risks
- Is there an administered role for specifying and allocating unused pipeline capacity?
  - would this facilitate more flexible shipping of gas?
- Should we continue to tolerate varied market institutions?
  - Victorian market carriage gives rise to boundary issues
  - STTM and Wallumbilla Hub – compulsory vs voluntary 'trading overlay' of contract carriage/GSA framework



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