



Gas Market Reform Group

EUAA – QUEENSLAND ENERGY FORUM

1 November 2018



Gas Market Reform Package

The COAG Energy Council agreed to implement the Gas Market Reform Package in August 2016 following consideration of reports by both the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Market Commission (AEMC).

These reports concluded that in respect to gas transportation:

1. There were few constraints on the behaviour of pipeline operators and the majority of transmission pipelines have market power and were engaging in monopoly pricing.
2. That the market for pipeline services was extremely opaque, search and transaction costs were high, and there was a major asymmetry in the information available to access seekers as compared to that held by pipeline operators.
3. That there was no effective market for secondary transportation capacity and pipeline operators, as the only providers of day-ahead capacity, were able to sell this capacity at prices in excess of what would occur in a workably competitive market.

The Gas Market Reform Package consisted of a suite of initiatives to address these issues and improve the transparency of the market. It also included a number of gas supply initiatives, which have since been supplemented by the Commonwealth Government's Australian Domestic Gas Security Mechanism and Peak Gas Supply Guarantee.



Gas market reforms

Gas supply

Primary

Gas Supply Strategy Implementation Plan for Collaborative Actions

Australian Domestic Gas Security Mechanism

Peak Gas Supply Guarantee

Secondary

Proposed implementation of a Southern Gas Supply Hub in Victoria and other modifications to the DWGM

Gas pipelines

Primary

Implementation of the new information disclosure and arbitration framework (Part 23 of the NGR) as an alternative to changing the test for regulation (coverage test))

AEMC review of NGR Part 8-12 economic regulation of covered pipelines

Secondary

- Develop a capacity trading platform and day-ahead auction
- Make capacity products more fungible by standardising products and operational transportation service agreements

Market transparency

ABS wholesale gas price index

Secondary capacity trading reporting framework

AEMC biennial review into the growth in liquidity in wholesale gas & pipeline capacity trading markets

Bulletin Board Improvements

ACCC Gas Inquiry 2017-20

ACCC and GMRG to advise PM on other opportunities to improve market transparency

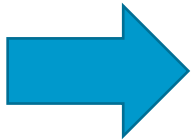
Part 23: Information Disclosure and Arbitration Framework for Non-Scheme Pipelines



Background to development of the new information disclosure and arbitration framework

April 2016: The ACCC published its *Inquiry into the East Coast Gas Market*, which found that while pipeline operators had responded well to changes in the market:

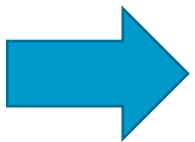
- there was evidence a large number were engaging in monopoly pricing; and
- the threat of regulation was not posing a constraint on this behaviour.



The ACCC proposed a change to the test for regulation.

August 2016: The Energy Council directed the GMRG to examine the test for regulation, in consultation with stakeholders.

December 2016:



The *Examination* recommended the adoption of a new information disclosure and arbitration framework for non-scheme pipelines as an alternative to extending the reach of formal regulation.



Key elements of the new framework

Overarching objective: To facilitate access on reasonable terms, which means at prices and other terms that reflect the outcomes of a **workably competitive market**.

Staged approach to information disclosure, negotiation and arbitration:



Exemptions: Applies to all non-scheme pipelines, but exemptions available if:

- the pipeline is **not** providing third party access
➡ pipeline exempt from Part 23
- the pipeline is servicing a single shipper or is below a 10 TJ/day size threshold
➡ pipeline exempt from some or all of the publication requirements but must still provide information during negotiations.



New information disclosure and arbitration framework for non-scheme pipelines

The objective of the information disclosure and arbitration framework is to strengthen shippers' bargaining power by:

- requiring pipeline operators to publish information to assist shippers to make an informed decision about whether to seek access;
- providing for a structured exchange of information during negotiations;
- adopting a commercially-oriented arbitration process to resolve disputes about proposed terms of access in a cost-effective and timely manner; and
- providing clear principles that the arbitrator must have regard to when determining an access dispute, which include a requirement for the arbitrator to have regard to the cost of providing the service (including a commercial rate of return that reflects the risks that pipeline operators face in providing services).

The new framework came into effect on **1 August 2017**.

Reporting requirements under the framework take effect progressively from Feb 2018.



Reporting obligations under Part 23 for non-exempt service providers

Initial Reporting Date	Information
Feb 2018	Standing terms and pricing methodology – including the standing price
Feb 2018	Service and access information <ul style="list-style-type: none">- Pipeline information- Pipeline service information- Service availability information
Feb 2018	Service usage information
Feb 2018	User access guide
October 2018 or January 2019 (depending on when the pipeline operator's financial year ends)	Financial reports by pipeline (which must include the value of the pipeline calculated using the recovered capital method) and weighted average prices This information must comply with the AER's Financial Reporting Guideline

Capacity Trading Reform Package



Background to the development of the capacity trading reform package

May 2016: The AEMC recommends the implementation of a capacity trading reform package, the objective of which is to:

foster a more liquid secondary capacity market and improve the efficiency with which capacity is allocated and used on transmission pipelines and compression facilities.

August 2016: The Energy Council endorses the AEMC's recommendations and accords the GMRG responsibility for the design and implementation of the reform package.

2017-18: The GMRG works with industry on the design of the reform package and the legal/regulatory framework and provides its final recommendations to the Energy Council.

July 2018: The Energy Council endorses the GMRG's recommendations and agrees to:

- implement the reform package in its entirety in the east coast; and
- implement the reform package in the NT but defer the commencement of the capacity auction on facilities located wholly or partly in the NT for at least 5 years.

1 March 2019: Commencement date for capacity trading platform and capacity auction.

1 October 2019: Commencement date for standard market timetable.



Key elements of the capacity trading reform package

The reform package provides for the implementation of:

- A **capacity trading platform** that will provide for exchange trading of commonly traded transportation products and a listing service for bespoke products.
- A **day-ahead auction** of contracted but un-nominated capacity, which will be conducted daily after nomination cut-off time and subject to a reserve price of zero.
- **Measures to facilitate capacity trading and the auction**, including standard operational transportation service agreements, which will establish the standard terms between service providers and shippers for capacity procured through the trading platform or day-ahead auction.
- A **reporting framework for secondary capacity trades** and a number of other transparency measures to facilitate capacity trading and the auction.
- A **standard market timetable** that provides for the adoption of:
 - a common gas day start time of 6 am across the east coast and the NT that will apply to all production, pipeline, compression and storage facilities and the facilitated markets
 - a common nomination cut-off time of 3 pm for transportation facilities subject to the reforms and an auction nomination cut-off time of 6.45 pm for auction facilities.

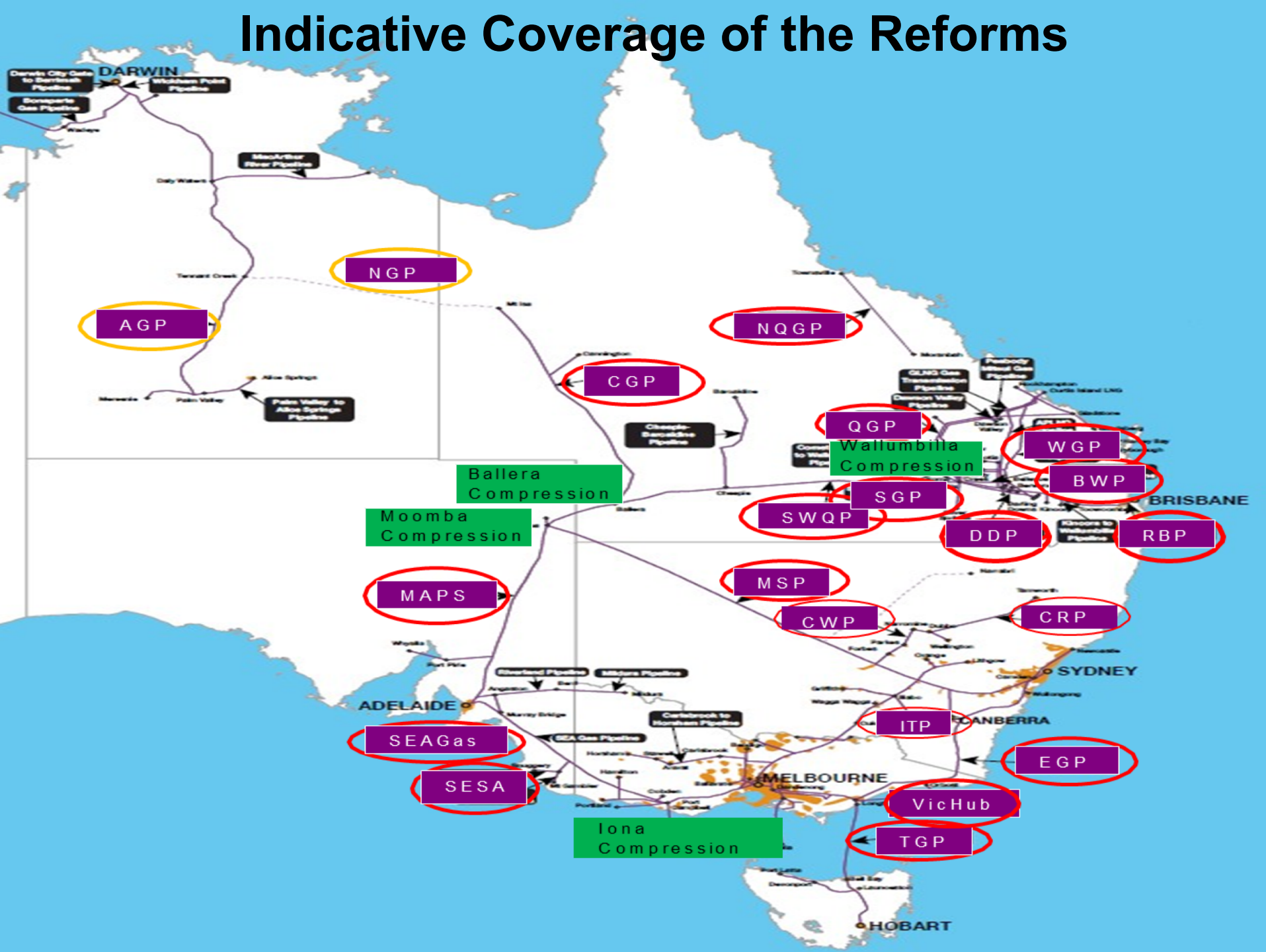


Exemptions from capacity trading reforms

The following exemptions from the capacity trading reform package will be available:

- Full exemptions from the reform package (excluding the secondary capacity reporting framework and standard market timetable) will be available:
 - **automatically** to:
 - distribution pipelines;
 - the Declared Transmission System in Victoria; and
 - compression facilities that are not stand-alone facilities or are not designated in the Regulations (i.e. the Wallumbilla, Moomba, Iona and Ballera compression facilities).
 - **on application to the AER**, to facilities not providing third party access.
- Conditional exemptions from the auction and the obligation to publish a standard OTSA will be **available, on application to the AER**, to:
 - facilities with a nameplate capacity rating less than 10 TJ/day; or
 - facilities that are servicing a single transportation user (shipper).

Indicative Coverage of the Reforms



Improving transparency in the gas market



Joint work on transparency

2017: In March 2017, the Prime Minister directed the ACCC and GMRG to work together to:

“advise on options to quickly improve transparency in the gas market, to facilitate competition between producers and information for purchasers. The scope will include the full supply chain”

2018: Over the last six months, the ACCC and GMRG have worked together to identify the information deficiencies in the east coast market and how these could be addressed. The results of this work reveal that while steps have been taken to improve transparency:

- the level of transparency surrounding demand and supply fundamentals in the east coast is relatively low compared to other developed countries, such as NZ, the US and the EU;
- there are still some significant information deficiencies surrounding:
 - reserves and resources and other upstream activities;
 - infrastructure availability and developments;
 - gas and infrastructure prices; and
 - LNG exports and imports (if any of the LNG import terminals are developed).
- the adverse effect that these information deficiencies can have on the market are even more acute at present, given the tight supply and demand balance and limited competition.

We will therefore be recommending a number of transparency measures.



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