COAG Energy Council

Senior Committee of Officials

BULLETIN

GAS MARKET REFORM

3 July 2018

APPLICATION OF CAPACITY TRADING REFORMS IN THE NORTHERN TERRITORY

At the request of the Northern Territory Government, Energy Council agreed in June 2018 that the capacity trading reforms will apply in the Northern Territory with the exception of the day-ahead auction for which application will be delayed.

Energy Council's decision to implement the capacity trading reform package was made in response to the Australian Energy Market Commission's (AEMC) review of the east coast gas market. As the Territory was not connected to the east coast market at the time of review, the Territory and the application of the recommendations to the Territory were not specifically considered.

The Territory gas market is expected to be connected to the east coast gas market from late 2018 upon commencement of the Northern Gas Pipeline. However, prior to June 2018, Energy Council had not made a decision on whether the reforms should extend to the Northern Territory and Western Australia.

At the request of the Northern Territory Government, in November 2017 Energy Council agreed that the AEMC be tasked to undertake a review into whether the capacity trading reform package should apply in the Northern Territory. This review was completed in March 2018.

The AEMC identified that there were a number of differences between the Territory and east coast markets, including:

- the Territory market has not seen the level of price volatility or scarcity of long term contracts seen in recent years in the east coast market
- the market has been developed primarily to support gas fired electricity generation rather than as a market in and of itself
- there is effectively no trade between LNG developments and the domestic market unlike on the east coast
- currently competition in the Territory is limited with only two gas suppliers
- the government ownership structure of the main gas and electricity supplier is not common in the east coast gas market. Further, there is an informal requirement that these parties act as suppliers of last resort. As a result the contracts these parties entered into for supply and transportation may not have the same terms and conditions as you would expect from a private enterprise.

The AEMC noted that while interconnection will result in gas flow between the Territory and east coast market, this does not imply gas prices will be closely linked. The distances involved and the cost of transport between the Territory and the east coast market are likely to result in differences between Territory and east coast gas contract prices, as well as the level of price volatility.

The AEMC found that currently the secondary trading of pipeline capacity in the Northern Territory is severely limited and that the benefits of implementing the capacity trading reforms that it identified in the east coast would also arise in the Territory.

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The AEMC therefore recommended the extension of the reform package in its entirety to the Territory but acknowledged that, due to the ownership issues in the Territory — and the lack of competition in that market — the application of the day-ahead auction at the present time could impact on Territory taxpayers.

The AEMC considered the ownership issues in the Territory were not something that it could take into account when assessing whether the proposed reforms contribute to the achievement of the National Gas Objective. Instead, the AEMC considered these issues are best addressed by the Territory Government in balancing the various economic benefits that may arise from the reforms and the possible impacts on Territory taxpayers.

Capacity trading reforms to apply from commencement of the Northern Gas Pipeline

The majority of the capacity trading reforms will apply in the Territory following the commencement of the Northern Gas Pipeline. This includes:

- the capacity trading platform;
- the measures to facilitate capacity trading, including the development of standard operational transportation service agreements;
- the reporting framework for secondary capacity trades and other transparency measures to facilitate capacity trading; and
- the standard market timetable.

Operators and users of Territory gas transportation facilities should make themselves familiar with the capacity trading reform package and key timings for Territory transportation facilities identified in the Gas Market Reform Group's Information Paper.

Application of the day-ahead auction will be delayed

To facilitate an orderly transition of the Territory to a competitive market, a derogation will delay the application of the day-ahead auction of contracted but un-nominated capacity to Territory transportation facilities.

Under the derogation, no capacity on a transportation facility wholly or partly in the Northern Territory can be made available for purchase through the day-ahead auction.

The derogation will cease to apply to a transportation facility wholly or partly in the Territory at the discretion of the Northern Territory Minister by declaration in the Northern Territory Government Gazette, or on a date determined by Energy Council after the fifth anniversary of the commencement of the capacity trading reform package amendments.

The Senior Committee of Officials intends to monitor the development of competition in the Territory gas market and appropriateness of the derogation on an ongoing basis. This may include through the review of the capacity trading reforms scheduled for two years following implementation.