

COAG ENERGY COUNCIL

AUSTRALIAN GAS MARKET VISION

THE COAG ENERGY COUNCIL'S VISION FOR AUSTRALIA'S FUTURE GAS MARKET RECOGNISES THE SIGNIFICANT TRANSFORMATION OCCURRING IN OUR MARKETS AND THE NEED FOR GOVERNMENTS TO GUIDE GAS MARKET DEVELOPMENT AND PROVIDE CERTAINTY FOR ALL STAKEHOLDERS.

The COAG Energy Council is faced with a major policy challenge. While the commencement of Liquefied Natural Gas (LNG) exports in Eastern Australia will bring positive economic benefits to the Australian economy, it is transforming gas markets and providing challenges for gas producers, users, infrastructure owners, market regulators, and the broader community. In response to this transformation the Council will put in place the necessary policy framework to support change, facilitate innovation and increase choice for participants in the Eastern Australian gas market.

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.

The Council will undertake effective implementation of its gas market reform agenda to achieve this vision and report its progress against its commitments through the Australian Gas Market Development Plan.

The Council is committed to market-focused policy options. The Council reassures investors that its approach will strengthen the integrity of the current regulatory frameworks, and respect property rights. The Council is also committed to ensuring that gas consumers are engaged in the continued development and reform of Australian gas markets and the community has increased confidence in gas development regulation.

The Council reaffirms its commitment to the National Gas Objective: *"to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas."*

RECENT REFORMS

The COAG Energy Council will achieve this vision by continuing to build on recent initiatives to improve supply response and reform gas markets over time including the establishment of:

- nationally consistent gas legislation through the National Gas Law
- a third party access regime to stimulate competition in gas shipment
- national regulatory institutions to oversee third party access to gas pipelines
- spot markets in demand zones – the Victorian Declared Wholesale Gas Market (DWGM) and Short Term Trading Markets (STTMs)
- the National Gas Market Bulletin Board (NGMBB), an online information platform
- the Australian Energy Market Operator (AEMO) to operate all spot markets and the NGMBB, and publish timely gas market information including forecasting of supply and demand
- an upstream trading hub at Wallumbilla, also operated by AEMO
- work underway to reduce the transaction costs associated with trading pipeline capacity, including mandating the provision of additional pipeline capacity information
- a National Harmonised Regulatory Framework for Natural Gas from Coal Seams.

THE NEXT PHASE OF REFORMS

The Council identifies four specific policy work streams that will comprise the next phase of gas market reform and development. These are: Competitive Supply; Transparency and Price Discovery; Risk Management; and Removing Unnecessary Regulatory Barriers.

This vision specifies 12 specific outcomes, and the addition of new actions to the Australian Gas Market Development Plan to improve their visibility and accountability. In the first instance 11 new actions have been agreed, including a range of initiatives which broadly include actions to:

- pursue cooperation on the development of a gas supply strategy, which informs communities and facilitates the responsible development of gas resources
- facilitate major gas supply and infrastructure projects
- improve access to key market information by participants
- improve competition and market function and, while noting different existing jurisdictional approaches, not national reservation policies or national interest tests
- task the AEMC to review the design, function and roles of facilitated gas markets and gas transportation arrangements.

These streams for future reform work, and their expected outcomes, are described more below.

STREAM 1: ENCOURAGING COMPETITIVE SUPPLY

An important objective for the COAG Energy Council is to create the enabling conditions for a competitive gas market, characterised by increased supply from a diversity of sources. Enabling gas supply to respond flexibly to demand as signalled by gas prices will ensure that supply is as competitive and efficient as possible.

The development and investment in new and additional gas supply sources will be driven by market-based outcomes. A competitive supply response depends on market-based policy approaches. While noting different existing jurisdictional approaches, market interventions on a national scale, such as a national domestic gas reservation policy or export controls are not supported.

The Council will aim to facilitate supply responses, by removing unnecessary regulatory impediments, streamlining regulation across governments and improving the availability of information. The Council will also aim to improve the availability of information which will ensure communities are engaged and have a high level of confidence in regulatory approaches related to tight, coal seam and shale gas.

In recognition of the important role of processing, storage and pipeline infrastructure to encouraging gas supply competition, the COAG Energy Council will look for opportunities to improve investment signals and facilitate important infrastructure developments.

The COAG Energy Council will further consider barriers to entry which may be inhibiting opportunities to make supply more competitive. It will also consider further ways to identify and address competition issues, including a need for further investigations as posited in the Energy Green Paper and the Victorian Gas Market Taskforce Report.

The COAG Energy Council will pursue the following outcomes:

Outcome 1: Improvements are made to the regulatory and investment environment so that gas supply is able to respond flexibly to changes in market conditions.

Outcome 2: A 'social licence' for onshore natural gas development achieved through inclusion, consultation, improving the availability and accessibility of factual information relating to resources projects, and rigorous science to ensure that the concerns of communities will be addressed.

STREAM 2: ENHANCING TRANSPARENCY AND PRICE DISCOVERY

The COAG Energy Council will also focus reform effort on increasing market transparency and assisting price discovery by continuing to aggregate existing market information and improve its accessibility.

Previous information and transparency improvement efforts by the COAG Energy Council have generally focused on providing greater information on the downstream components of Australian gas markets. The Council recognises the need to place equal emphasis on information relating to upstream gas resources. An important contributor to informed decision making about the future value of gas is transparent information on reserves, resources production, forecasts and well drilling rates. The COAG Energy Council expects that timely and improved reporting of this type of information to the market will help inform the market.

Continued efforts to improve market transparency and information are critical to achieve the Council's vision for Australian gas markets. The Council will continue to pursue work to facilitate trade in pipeline capacity as the arrangements governing gas transmission frameworks are examined.

The Council acknowledges that there will be costs associated with the provision of additional information and these costs need to be subject to robust assessment, and is appropriate for the progressive development of Australia's gas markets.

The COAG Energy Council will pursue the following outcomes:

Outcome 3: The provision of accurate and transparent market making information on pipeline and large storage facilities operations and capacity, upstream resources, and the actions of producers, export facilities, large consumers and traders.

Outcome 4: Increased flexibility and opportunity for trade in pipeline capacity.

Outcome 5: A competitive retail market that will provide customers with greater choice and large users with enhanced options for self-supply and shipment.

STREAM 3: IMPROVING RISK MANAGEMENT

Long term contracts negotiated bilaterally by buyer and producer have traditionally been the mechanism used to manage price risk by the gas industry. However, as the market undergoes substantial change, this is impacting contracting behaviour and the ability of participants to manage risk. A market with a transparently traded gas price which is suitably liquid and robust would better position participants to manage risk.

The COAG Energy Council established an upstream gas market at Wallumbilla where gas can be traded as a commodity and where liquidity, and subsequently, a robust reference price, could be focused. Early indications from Wallumbilla are positive and the COAG Energy Council remains committed to an AEMO review of hub services at Wallumbilla in 2015. This review will ensure that the gas supply hub model continues to develop with a focus to demonstrating the desired characteristics of a robust spot market.

The Council's vision commits to establishing the necessary enabling conditions that would allow the development of a liquid trading hub and reference price. The Council's vision also commits to establishing the enabling conditions for access to transmission pipelines that support the development of a liquid trading market for the eastern Australian gas market.

The COAG Energy Council considers the most appropriate body to advise on the development of facilitated gas markets and arrangements for the supporting gas transmission pipeline network is the AEMC, in conjunction with AEMO and industry stakeholders.

The COAG Energy Council will pursue the following outcomes:

Outcome 6: Liquid and competitive wholesale spot and forward markets for gas in Australian gas markets which provide tools for participants to price and hedge risk.

Outcome 7: Access to regional demand markets through more harmonised pipeline capacity contracting arrangements which are flexible, comparable, transparent on price, and non-discriminatory in terms of shippers' rights, in order to accommodate evolving market structures.

Outcome 8: Harmonised market interfaces across Australian gas markets that enable participants to readily trade between locations and find opportunities for arbitrage and trade.

Outcome 9: Identified development pathways to improve interconnectivity between supply and demand centres, and existing facilitated gas markets, which enable the enhanced trading of gas.

STREAM 4: REMOVING UNNECESSARY REGULATORY BARRIERS

Removing unnecessary regulatory barriers and promoting the interconnectedness of Australian gas markets is important to reducing market complexity and cost, and enabling gas supply to flow to its highest value end use. The COAG Energy Council will pursue greater consistency and harmonisation in jurisdictional approaches to gas supply and market development.

The COAG Energy Council will investigate options that remove unnecessary regulatory barriers which currently restrain the market from achieving more efficient outcomes, and improve existing necessary regulatory measures to ensure they achieve their purpose without inhibiting conditions that enable further market development.

The Council will not support presumptive interventions without regard to their costs and benefits and will continue to monitor its work plan to ensure regulatory changes remain appropriate.

The COAG Energy Council will pursue the following outcome:

Outcome 10: Regulation of gas supply and infrastructure is appropriate and enables participants to pursue investment opportunities, in response to market signals, in an efficient and timely manner.

NEXT STEPS

The COAG Energy Council considers participation from stakeholders critical to the successful development of the gas industry and invites stakeholders to engage with governments in the future reform process. It notes feedback that this has not always been the case. The Council will enlist the expertise of industry, consumers and the wider community in undertaking further reforms in pursuit of its vision for gas markets and will work with stakeholders to ensure a timely and ambitious future reform agenda.

The COAG Energy Council will pursue the following outcomes:

Outcome 11: Accountable, timely reforms that have the confidence of stakeholders.

Outcome 12: Stakeholders have increased opportunity to engage with and provide perspectives and expertise into reforms.