# 

Gas Market Reform Package

COAG Energy Council response to the recommendations of the Australian Competition and Consumer Commission (ACCC) Inquiry into the East Coast Gas Market and the Australian Energy Market Commission (AEMC) Eastern Australian Wholesale Gas Market and Pipelines Framework Review Stage 2 Final Report

# Gas Supply

The Energy Council accepts the evidence provided by the ACCC and AEMC that tightening gas supply has created considerable uncertainty for all gas market participants and is a core contributor to rising gas prices. There are three key factors that are influencing gas supply:

* significant demand from Liquefied Natural Gas (LNG) producers for export has fundamentally changed the directions of gas flows and market dynamics
* lower international oil and gas prices are reducing the incentives to explore and develop new supply
* regulatory restrictions on onshore gas exploration and development are potentially prohibiting investment.

These three factors mean that the supply outlook is uncertain. New gas supply from new producers and new basins are vital to promote competition and ensure gas users have a range of supply options.

The Energy Council agrees to consider how to address the issue of gas supply, taking account of each State and Territory’s circumstances. While supply regulation is primarily a state and territory matter, the gas market effects are not confined to a single jurisdiction, and there are opportunities to improve regulation and address community concerns through learning from each other’s experiences. The ACCC findings on the importance of increasing gas supply and suppliers reinforce the importance of the work already underway by the Energy Council on supply-side matters. As a matter of priority, the Energy Council will continue to collectively work through its [Gas Supply Strategy](http://www.scer.gov.au/sites/prod.energycouncil/files/publications/documents/Gas%20Supply%20Strategy_0.pdf), to develop regulatory systems which build and sustain the confidence of the community and investors. *The Gas Supply Strategy Implementation Plan for Collaborative Actions* provides more detail on how jurisdictions will work together over the next 18 months on scientific and regulatory issues associated with onshore gas.

|  |  |  |  |
| --- | --- | --- | --- |
| ACCC Recommendation | AEMC Recommendation | Energy Council Response | Energy Council Reform Measure |
| 1 - Governments should consider adopting regulatory regimes to manage the risks of individual gas supply projects on a case by case basis rather than using blanket moratoria. Governments should take into consideration the significant effects that moratoria and other restrictions on gas development may have on gas users. | The AEMC response to ACCC recommendations 1 and 2 (p18) noted that:  The AEMC’s remit does not cover upstream issues and therefore the Term of Reference for the East Coast review did not extend to specific issues associated with gas supply. | Energy Council notes the ACCC’s recommendation for case by case regulation of supply projects.  The ACCC Inquiry findings will inform Energy Council discussions on unconventional gas issues, including addressing community concerns, improving regulation, and increasing transparency, taking account of each State and Territory’s circumstances.  The Energy Council notes that Victoria is not in a position to support this recommendation at this time.  The Energy Council has agreed to a Gas Supply Strategy Implementation Plan across 14 measures to improve scientific and regulatory issues associated with onshore gas (Reform Measure 1). | **1. Gas Supply Strategy Implementation Plan for Collaborative Actions** The Gas Supply Strategy is the Energy Council's commitment to improving collaborative efforts between jurisdictions on scientific and regulatory issues associated with onshore gas.  **Lead**: COAG Energy Council working groups.  **Timeframe**: The initial implementation period is 18 months, commencing in August 2016. The timeframes associated with each collaborative action vary as outlined in the Implementation Plan. The Energy Council will receive regular reports on the status of implementation and may agree to additional collaborative actions at any time.  **Approach**: Implementation of the GSS will be at the discretion of each jurisdiction however Energy Council members will continue to share information and experiences, regardless of individual Government policy positions. |
| 2 - Gas reservation policies should not be introduced, given their likely detrimental effect on already uncertain supply. | The Energy Council has recognised that reservation policies are shown to stagnate economic investment, in turn, limiting development of reserves and future resource discovery.  Consistent with previous Energy Council statements, the Energy Council will continue to pursue market based initiatives and, while noting different existing jurisdictional approaches, will not pursue national reservation policies. |
| ACCC future work:  The ACCC will consider the effect of the joint marketing arrangements of the Gippsland Basin Joint Venture (GBJV) in light of current market dynamics, for the purposes of section 45 of the CCA. |  | The Energy Council notes the ACCC’s further consideration of joint marketing arrangements of the GBJV and believes this work is very important given the ACCC’s observations on a shift in market power to Bass Strait producers.  The Energy Council understands that the ACCC is currently internally considering the effect of the joint marketing arrangements of the GBJV in light of current market dynamics, for the purposes of section 45 of the *Competition and Consumer Act 2010*. Should further action be deemed to be required the ACCC will initiate a formal inquiry and stakeholders will be afforded the opportunity to provide feedback/submissions. |

# Market Operation

The Energy Council recognises the consensus from the ACCC and the AEMC that changes to the gas markets have reduced the traditional options available to users to manage their gas requirements and that more flexible short-term trading options and risk management tools are required.

The Energy Council broadly supports the AEMC’s integrated package of reforms, which are reinforced by the ACCC’s findings. The AEMC’s recommendations for changes to wholesale market mechanisms are designed to improve the tools available to users to manage their gas requirements. With shorter, less flexible bilateral contracts being negotiated large users need new ways to manage their shorter term gas positions. The current market designs offer few options other than day-ahead trading. The pricing mechanisms in these markets also limit the ability for hedging exposure to gas prices. This necessitates users taking a physical position in the market rather than being able to rely on financial products to manage their risks.

The Energy Council has agreed that the trading of gas should be concentrated at two facilitated markets, at a Northern Hub at the existing Gas Supply Hub (GSH) at Wallumbilla and at a Southern Hub on the Victorian Declared Transmission System, with improved and more unified market designs at each location. The Energy Council notes that the development of the detailed arrangements for the Southern Hub is subject to the outcomes of the AEMC's Review of the Victorian Declared Wholesale Gas Market (DWGM) and the Energy Council welcomes further analysis of the costs and benefits and consultation with stakeholders.

| ACCC Recommendation | AEMC Recommendation | Energy Council Response | Energy Council Reform Measure |
| --- | --- | --- | --- |
| The ACCC, in relation to trading markets, noted that:  (p. 14) The Inquiry supports the AEMC’s wide consideration of market participant views on the appropriate number and type of trading markets (that is, voluntary or mandatory).  The AEMC should test whether other arrangements would be likely to generate more liquidity compared to the existing Declared Wholesale Gas Market (DWGM) and Short Term Trading Market (STTM) arrangements.  (p.79) The following steps could be taken to reduce transaction costs in trading markets:   * ensure that alignment and risk issues (including the risk of incurring ancillary charges associated with particular market mechanisms) are taken into account when designing or re-designing derivative trading products, such as those offered by the ASX in relation to the Victorian DWGM. | 1. Focus development efforts on two primary trading hubs - a Northern and Southern hub - that share common trading arrangements to improve price discovery and reduce barriers to participation. | The Energy Council supports the AEMC recommendation to establish two primary trading markets in eastern Australia, a Northern Hub centred on the Wallumbilla hub location and a Southern Hub based on the Victorian Declared Transmission System (Reform Measure 2a and 2b).  The Energy Council’s *Australian Gas Market Vision* is supportive of measures to improve trading liquidity and develop credible reference prices which participants can use to hedge market risks. The consolidation of multiple types of existing trading markets to a more uniform, consistent trading market design is consistent with this objective.  The Energy Council supports the transition to a consistent exchange-based trading market design and the concentration of trading liquidity to two markets, to improve price discovery and reduce barriers to participation. | **2a. Northern Hub**  Establish the Northern Hub at Wallumbilla, with existing physical trading limitations addressed in the first instance through implementation of Optional Hub Services.  **Lead**: Australian Energy Market Operator (AEMO)  **Timeframe**: Optional Hub Services model to be implemented in March 2017.  **Approach**: No changes to current process for implementation of Optional Hub Services.  **2b. Southern Hub** In-principle support for establishing the Southern Hub by transitioning the existing DWGM design to the proposed continuous exchange-based trading model, supported by a system of firm capacity rights.  The implementation of this reform will be subject to the final report of the *AEMC Review of the Victorian Declared Wholesale Gas Market*. **Lead:** Gas Market Reform Group  **Timeframe:** The Gas Market Reform Group Chair to provide Ministers with an implementation plan following the publication of the AEMC’s final report.  **Approach**: DWGM Review, potential Regulation Impact Statement, stakeholder consultation, legislative amendments, rule changes, procedure changes and transitional measures.  **3. Simplification of the STTMs**  In principle support of simplifying STTM hubs to balancing mechanisms following the development of the Northern and Southern hubs and pipeline capacity trading.  **Lead**: Gas Market Reform Group  **Timeframe**: To be considered by the AEMC's biennial report (Reform Measure 13) once the reform measures relating to the Northern and Southern hubs and to pipeline capacity trading have been implemented.  **Approach**: Potential changes to the National Gas Law (NGL), National Gas Regulations and National Gas Rules (NGR), procedure changes and transitional measures. |
| 2. The Northern Hub to be located at Wallumbilla, with existing physical trading limitations addressed in the first instance through implementation of Optional Hub Services. | The Energy Council supports the designation of the Wallumbilla gas supply hub as the Northern Hub and the proposal to maintain its current definition as a physical trading location (Reform Measure 2a). The Energy Council supports existing commitments to implement the Optional Hub Services model and implement a single trading product at Wallumbilla.  The Energy Council acknowledges the AEMC’s consideration of the costs and benefits of a Single Trading Zone model and agrees to monitor the efficiency of the physical hub through the biennial report on growth in liquidity (Reform Measure 13). Should trading liquidity at the Northern Hub not develop in-line with expectations, the Council will consider potential transition of the Wallumbilla trading location to a virtual hub definition. |
| 3. The Southern Hub to be transitioned from the existing DWGM design to continuous exchange-based trading, supported by a system of firm capacity rights. | The Energy Council supports, in principle, the development of a Southern Hub. The Energy Council notes that the development of the detailed arrangements for the Southern Hub is subject to the outcomes of the AEMC’s Review of the Victorian DWGM and the Energy Council welcomes this further analysis of the costs and benefits and consultation with stakeholders. |
| 4. Simplification of Short Term Trading Market (STTM) hubs to balancing mechanisms following the development of the Northern and Southern hubs, and pipeline capacity trading. | The Energy Council gives in principle support to the simplification of STTM hubs to balancing mechanisms following the development of the Northern and Southern hubs and pipeline capacity trading (Reform Measure 3).  The Energy Council notes the current flexibility the STTMs offer to some market participants and recognises the importance of providing a clear set of metrics or pre-conditions that would trigger the eventual simplification of the existing STTM design to a pared back balancing market design.  The Energy Council will monitor the effects of the implementation of the Northern and Southern Hubs through the biennial report on growth in liquidity (Reform Measure 13) to determine when the future transition of the STTM should be considered further. |
| 10 - The AEMC should consider how to monitor changes in the level of trading flexibility available to gas buyers over time and how the trading and other risks of having to purchase gas and transportation services on a day-ahead basis can be best managed.  The ACCC, in relation to monitoring trading flexibility, noted that: The Inquiry encourages gas suppliers and buyers to consider ways in which GSAs could allow greater flexibility for gas trading. There would also be merit in the AEMC giving further consideration to whether there might be ways of monitoring changes in the level of trading flexibility available to gas buyers over time. | The AEMC response to ACCC recommendation 10 (p19) noted that:  Recommendations 1-4 of the AEMC report will improve liquidity in wholesale markets, including changes to be implemented now and over time.  Recommendation 12 of the AEMC report is that the COAG Energy Council tasks the Commission with providing a biennial report on growth in liquidity in wholesale gas and pipeline capacity trading markets, to inform the development of reforms. | The Energy Council notes the ACCC recommendation for monitoring the level of trading flexibility in the market.  The Energy Council considers that the focus should be on the underlying problem of limited liquidity in the market, rather than monitoring the symptom (lack of flexibility).  Energy Council reforms for reforming wholesale markets and pipeline services are the most direct and appropriate actions to improve liquidity in the market.  The Energy Council will continue to monitor the efficiency of wholesale gas and pipeline capacity trading markets through the biennial report on growth in liquidity (Reform Measure 13). |
| 11 - The COAG Energy Council should monitor the emerging issue of separate gas specifications in the east coast gas market. This issue has the potential to impede the free flow of gas across the east coast gas market and impose additional costs on some market participants.  The COAG Energy Council should ensure that any costs associated with a non-standard gas specification are borne by the market participants that require alternative specification. | The AEMC response to ACCC recommendation 11 (p18) noted that:  The AEMC has also noted this issue and the proposed design for wholesale gas and trading arrangements reflect the ACCC’s views that any non-standard gas specification should be addressed by the market participant and not accommodated within the market design itself. | The Council notes that the AEMC findings reflect the ACCC views that any non-standard gas specification should be addressed by the market participant and not accommodated within the market design itself.  The Energy Council would be concerned if technical specifications were used to shift costs or limit liquidity.  The Council will monitor this issue through the biennial report on growth in liquidity in wholesale gas and pipeline capacity trading markets (Reform Measure 13). |

# Gas Transportation

To support wholesale market liquidity and the development of new gas supply, it is vital that market participants are able to access transportation capacity to move gas to and from, and between, trading hubs. Negotiating pricing and access to pipelines needs to be made easier.

Getting the regulatory settings for gas transmission pipelines right is important to ensure an efficient transportation sector with competitive prices. In a tighter gas market continued investment in pipelines and related services is needed to provide flexibility and choice for consumers.

The Energy Council acknowledges the evidence presented by the ACCC that there are few constraints on the behaviour of existing pipeline operators. The ACCC found that the majority of transmission pipelines on the east coast have market power and are engaging in monopoly pricing. Monopoly pricing affects the operation and efficiency of the market and has the potential to worsen the supply situation. Accordingly, the Energy Council has agreed to further examine and consult on the current test for the regulation of gas pipelines (the coverage criteria) in the National Gas Law.

In the shorter term, there are reforms which could help the market transact more efficiently with pipeline operators and the Energy Council will pursue these as a priority. In particular, facilitating capacity trading between market participants is an important means of providing competitive tension to pipeline prices. The Energy Council supports the establishment of a capacity trading platform(s), day-ahead auction of contracted but un-nominated capacity, the standardisation of key primary and secondary capacity contractual terms and information on capacity trades.

| ACCC Recommendation | AEMC Recommendation | Energy Council Response | Energy Council Reform Measure |
| --- | --- | --- | --- |
| 3 - The COAG Energy Council should agree to replace the current test for the regulation of gas pipelines (the coverage criteria) in the National Gas Law (NGL) with a new test. This test would be triggered if the relevant Minister, having regard to the National Competition Council’s recommendation, is satisfied that:   * the pipeline in question has substantial market power; * it is likely that the pipeline will continue to have substantial market power in the medium term; and * coverage will, or is likely to, contribute to the achievement of the National Gas Objective.   The COAG Energy Council should also ask the AEMC to carry out further consultation on the specific matters that should be considered when applying this test and how it should be implemented and to advise the COAG Energy Council of the amendments that would need to be made to the NGL and the National Gas Rules (NGR) to give effect to this new test. | The AEMC response to ACCC recommendations 3, 4 and 5 (p18) noted that:  AEMC Recommendations 5-8 address some of the ACCC’s findings in this area. By improving access to transportation capacity in the short term, the AEMC's recommendations are likely to be helpful in mitigating the impacts on market efficiency that the ACCC has found are resulting from monopoly pricing by pipeline operators.  The ACCC's findings on the potential issues stemming from monopoly pricing over the longer term, and its conclusion that the existing Gas Access Regime does not effectively target these, are consistent with analysis undertaken by the AEMC in this review.  If the COAG Energy Council agrees to progress a review of the Gas Access Regime, the AEMC does not consider that this should preclude or delay the progression of the AEMC’s capacity trading market recommendations (Recommendations 5-8). | The ACCC’s work has concluded that the current regime for regulating access to gas pipelines is not fit-for-purpose, giving rise to negative consequences for supply and price in a tight market. These findings are consistent with the analysis undertaken by the AEMC.  The Energy Council agrees to further examine and consult with stakeholders on the current test for the regulation of gas pipelines (the coverage criteria) in the NGL.  Following this examination and consultation, the Energy Council will consider the appropriateness of replacing the coverage test at its next meeting (Reform Measure 4). | **4. Examine the pipeline coverage criteria in the NGL** Examine the current regulatory test for the regulation of gas pipelines, in consultation with stakeholders, and provide recommendations on any future action to the Energy Council, including potentially replacing the test. Consultation with affected stakeholders on the coverage criteria to occur as soon as possible.  **Lead**: Gas Market Reform Group  **Timeframe**: Examination and consultation to commence on agreement from Energy Council. Ministers to consider the appropriateness of replacing the coverage test at the late 2016 Energy Council meeting.  **Approach**: Immediate development of a discussion paper and stakeholder consultation. Should Ministers agree to replace the coverage test in late 2016: Regulation Impact Statement, legislative amendment process, rule changes and transitional measures will be progressed.  **5. Review of NGR Parts 8-12 (Pipeline regulation)**  AEMC to review Parts 8-12 of the NGR and propose amendments that may be required and consult with affected stakeholders.  **Lead**: AEMC  **Timeframe**: Ministers to be updated AEMC progress at the late 2016 Energy Council meeting.  **Approach**: Formal AEMC Review, potential rule change process and transitional measures.  **6. Review information disclosure requirements in the NGL** Examine options for expanding the scope of the information disclosure requirements in the NGL to require all pipelines operating on an open access basis to publish financial information. Provide recommendations for future action to the Energy Council, including a draft amendment to the NGL if required.  **Lead**: Gas Market Reform Group  **Timeframe**: The Gas Market Reform Group Chair to update Ministers on progress at the late 2016 Energy Council meeting.  **Approach**: Stakeholder consultation, potential Regulation Impact Statement and legislative amendment process, rule changes and transitional measures.  **7. Development of a capacity auction** Introduction of an auction for contracted but un-nominated capacity with a regulated reserve price.  **Lead:** Gas Market Reform Group  **Timeframe:** The Gas Market Reform Group Chair to provide Ministers with an implementation plan at the late 2016 Energy Council meeting.  **Approach**: Consideration of AEMC's required, preferred and suggested outcomes, stakeholder consultation, potential Regulation Impact Statement, legislative amendments, rule changes, procedure changes and transitional measures.  **8. Standardisation of capacity contracts** Develop standards for key operational, prudential and other contractual provisions in GTAs, CTAs and Operational GTAs, and provisions in contracts used for exchange based trading on the capacity trading platform, and make amendments to the NGL, NGR and subordinate instruments if required.  **Lead:** Gas Market Reform Group  **Timeframe**: The Gas Market Reform Group Chair to provide Ministers with an implementation plan at the late 2016 Energy Council meeting.  **Approach**: Consideration of AEMC's required and preferred outcomes, stakeholder consultation, potential Regulation Impact Statement, legislative amendments, rule changes, procedure changes and transitional measures.    **9. Creation of capacity trading platform(s)** Create capacity trading platform(s) which include electronic anonymous exchange based trading for commonly traded products in addition to a capacity listing service typical on current capacity trading platforms, and make amendments to the NGL, NGR and subordinate instruments if required.  **Lead:** Gas Market Reform Group  **Timeframe**: The Gas Market Reform Group Chair to provide Ministers with an implementation plan at the late 2016 Energy Council meeting.  **Approach**: Consideration of AEMC's required and preferred outcomes, stakeholder consultation, potential Regulation Impact Statement, legislative amendments, rule changes, procedure changes and transitional measures.  **10. Publish secondary capacity trade information** Publication of information (including pricing) on all secondary trades of pipeline capacity and hub services. Development of amendments to the NGL, NGR and subordinate instruments if required.  **Lead:** Gas Market Reform Group  **Timeframe:** The Gas Market Reform Group Chair to provide Ministers with an implementation plan at the late 2016 Energy Council meeting.  **Approach**: Consideration of AEMC's required outcomes, stakeholder consultation, potential Regulation Impact Statement, legislative amendments, rule changes, procedure changes and transitional measures.  **11. Consider enhancing market body powers for capacity trading reforms** Consider amending the NGL to give the market bodies’ additional powers with regard to the regulation of pipeline capacity trading arrangements.  **Lead**: Gas Market Reform Group  **Timeframe**: The Gas Market Reform Group Chair to update Ministers on progress at the late 2016 Energy Council meeting.  **Approach**: Consider requirements based on determined reform designs, and pursue legislative amendments if required |
| 4 - The COAG Energy Council should ask the AEMC to review Parts 8-12 of the NGR and to make any amendments that may be required to address the concern that pipelines subject to full regulation may still be able to exercise market power to the detriment of consumers and economic efficiency. In this review, the AEMC should also consider whether any changes can be made to the dispute resolution mechanism in the NGL and NGR to make it more accessible to shippers, so that it provides a more effective constraint on the behaviour of pipeline operators. | The Energy Council agrees with the ACCC’s recommendation that Parts 8-12 of the NGR be reviewed to address the concern that pipelines subject to full regulation may still be able to exercise market power to the detriment of consumers and economic efficiency.  The Energy Council notes that this is a very broad recommendation which is intended to ensure pipeline operators with regulated transmission pipelines are unable to exercise market power on unregulated services.  The Energy Council tasks the AEMC to review Parts 8-12 of the NGR and to consider amendments that may be required for consultation with stakeholders (Reform Measure 5). |
| 5 - The COAG Energy Council should ask the AEMC to explore how the scope of the information disclosure requirements in the NGL should be expanded to require all pipelines operating on an open access basis (that is, regulated and unregulated pipelines) to publish financial information that shippers can use to determine whether or not the prices they are offered by pipeline operators are cost reflective. The publication of this information would enable shippers to negotiate more effectively with pipeline operators and to identify any exercise of market power more readily. | The Energy Council acknowledges that the ACCC’s findings with regard to the information disclosure requirements in the NGL are consistent with analysis undertaken by the AEMC, and that the AEMC concurs with the ACCC's recommended approach to progressing reforms to the Gas Access Regime.  The Energy Council agrees to examine options for expanding the scope of the information disclosure requirements in the NGL to require all pipelines operating on an open access basis to publish financial information. The Council will consider recommendations for future action, including draft amendments to the NGL if required (Reform Measure 6). |
| ACCC future work:  The ACCC will consider whether the availability or pricing of capacity on regional pipelines raises any concerns as a possible contravention of the misuse of market power provisions or the exclusive dealing provisions of the CCA. |  | The Energy Council notes the ACCC’s finding that some shippers on some regional pipelines are withholding pipeline capacity, preventing other parties from accessing capacity and entering the market. The Council believes it is important for the ACCC to continue to consider this issue in accordance with the provisions of the *Competition and Consumer Act 2010*.  The Energy Council understands that the ACCC is currently internally considering this issue, and should further action be deemed to be required the ACCC will initiate a formal inquiry and stakeholders will be afforded the opportunity to provide feedback/submissions. |
| 13 - The AEMC should consider the benefits of a short term auction process for hub services if it decides to implement the day-ahead auction for pipeline services | 5. Development and introduction of a daily, day-ahead capacity auction for contracted but un-nominated pipeline capacity and hub services which happens shortly after nomination cut-off time. This auction is to have a reserve price of zero dollars, with compressor fuel provided by shippers in-kind, offer at least all contracted but un-nominated capacity, and accommodate nominations or renominations by incumbent shippers after the auction is conducted. | As outlined by the ACCC and reinforced by the AEMC, the Energy Council notes that day-ahead auctioning of capacity will reduce short-term capacity prices, facilitate more pipeline utilisation and increase gas flows south and between STTMs.  The Energy Council agrees to introduce an auction for contracted but un-nominated pipeline capacity and hub services (Energy Council Reform Measure 7), according to the AEMCs recommendation.  The Gas Market Reform Group will lead the development of detailed design work for any required changes to the NGL and NGR and other relevant instruments that are necessary to support the implementation of this auction. This work will consider the AEMC’s required, preferred and suggested outcomes for the auction design in further detail when evaluating options.  Required changes to the NGL and subordinate instruments (if necessary) will be progressed through SCO for Energy Council consideration. The Energy Council notes the AEMC’s recommendation to not introduce at this time a long term use-it-or-lose-it mechanism. As part of its proposed biennial reviews (Review Measure 13), the Energy Council will consider whether an effective market for pipeline capacity trading is emerging and revisit whether it is necessary to introduce a long-term use-it-or-lose-it mechanism. |
| The ACCC, in relation to pipeline capacity, noted that:  (p. 79) The following steps could be taken to reduce transaction costs in trading markets:   * improve the ability of market participants to access short-term pipeline capacity by standardising contract terms and conditions and other potential measures such as auctioning of capacity | 6. Standardisation of key primary and secondary capacity contractual terms for pipeline and for hub services, which where possible and appropriate apply across the eastern Australian gas market. Standards to be developed are for key operational, prudential and other contractual provisions in GTAs, CTAs and Operational GTAs, and provisions in contracts used for exchange based trading on the capacity trading platform. Counterparties to existing contracts should not be materially disadvantaged through the standardisation process. | The Energy Council notes the findings of the ACCC and AEMC of the benefits of standardising GTAs, CTAs and Operational GTAs, which included reducing search and transaction costs and allowing trades to be executed faster.  The Energy Council agrees to the standardisation of key primary and secondary capacity contractual terms for pipeline and for hub services (Reform Measure 8).  The Energy Council notes that having market participants involved in determining the appropriate level of standardisation and how to achieve greater receipt and delivery point flexibility is important because they ultimately will have to operate under these terms and conditions.  The Gas Market Reform Group will lead the development of detailed design work for any required changes to the NGL and NGR and other relevant instruments that are necessary to support the standardisation process. This work will consider the AEMC’s required and preferred outcomes for contract standardisation in further detail when evaluating options for the capacity standardisation initiative. |
| 12 - The AEMC should consider requiring the introduction of a centralised capacity trading platform to facilitate secondary capacity trading and day-ahead auctioning of unutilised capacity. | 7. Creation of capacity trading platform(s) which include electronic anonymous exchange based trading for commonly traded products in addition to a capacity listing service typical on current capacity trading platforms. Trades carried out through the capacity trading platform to be given effect through an operational transfer. For other secondary capacity trades, bare transfers will be allowed but the seller will be required to offer the buyer the option to use an operational transfer. | The Energy Council agrees to the creation of a capacity trading platform(s) (Reform Measure 9) to facilitate secondary capacity trading and day-ahead auctioning of unutilised capacity in line with the AEMCs recommendations.  The Gas Market Reform Group will lead the development of detailed design work for any required changes to the NGL and NGR and other relevant instruments that are necessary to support the creation of the capacity trading platform(s). This work will consider the AEMC’s required and preferred outcomes in further detail when evaluating options for capacity trading.  The Energy Council acknowledges that the pipeline industry has expressed a desire to lead this reform through the establishment of an Industry Energy Council responsible for developing industry standards to ensure these reforms are consistently implemented by pipeline operators.  The Energy Council believes that the governance proposal for the Gas Market Reform Group (Reform Measure 15) effectively incorporates many of the key features of the industry governance model.  This model allows SCO to oversee the reform process while incorporating the expertise of industry, to facilitate the gas market reforms necessary to progress the NGO and the Energy Council’s Vision. |
| The ACCC, in relation to publication of capacity trade information, noted that:  …shippers may require more information on the costs incurred by pipelines to determine whether or not the prices offered by the pipeline operator are cost reflective and to negotiate more effectively with pipeline operators.  The Inquiry’s recommendation… to require greater disclosure of this type of information by pipelines [recommendation 5] should be considered by the COAG Energy Council alongside measures to report secondary and particularly primary capacity trade information. | 8. Publication of information on all secondary trades of pipeline capacity and hub services. The information to be published is the price of the trade and any other information that might reasonably influence that price, taking into account measures to protect the anonymity of counterparties, and should occur at or shortly after the time the transaction is entered into. | The Energy Council notes that the publication of secondary trade information is supported by the ACCC findings that it will achieve greater price transparency and instil a greater level of confidence in the secondary market, which will, in turn, support the development of a more liquid wholesale gas market consistent with both the NGO and the Energy Council’s Vision.  The Energy Council agrees to the publication of information on all secondary trades of pipeline capacity and hub services (Reform Measure 10). Information to be published will include the price of the trade and any other information that might reasonably influence that price, taking into account measures to protect the anonymity of counterparties, and should occur at or shortly after the time the transaction is entered into.  The Gas Market Reform Group will lead the development of detailed design work for any required changes to the NGL, NGR and other relevant instruments that are necessary to support the publication of this information. |
|  | 11. COAG Energy Council to progress an amendment to  s74 (1) (a) of the NGL to give the AEMC a rule making power with regard to the regulation of pipeline capacity trading arrangements. | The Energy Council agrees to consider amending the NGL to give the market bodies’ additional powers with regard to the regulation of pipeline capacity trading arrangements (Reform Measure 11).  At this stage, it remains unclear if the market bodies’ will require new powers or if the existing powers will be adequate. The Gas Market Reform Group will consider the powers required by market bodies’ based on determined reform designs, and pursue legislative amendments if required. |

# Market Transparency

The development of liquidity in both the wholesale gas and transportation capacity markets is dependent on market participants' decisions being made on the basis of relevant and readily available information.

The Energy Council acknowledges the findings of the ACCC that the gas market is opaque and inflexible. Lack of transparency and information about the level of reserves, and commodity and transport prices are hindering efficient market responses to the changing conditions and are not signalling expected supply problems effectively.

The Energy Council agrees that there are a number of significant information gaps and asymmetries across the gas sector that adversely affects the price discovery process and the way in which gas and other resources are allocated. Additional and more consistent information should be made available to gas market participants to make price discovery easier, promote liquidity and inform efficient decision making. Accordingly, the Energy Council has agreed to pursue better information to ensure the market is as transparent as possible and provides open pricing and reserve information for all customers. The Energy Council is taking a holistic approach to improving market transparency – an approach which improves the broader understanding in the market about the underlying drivers influencing gas pricing and availability. With greater confidence in market information, trading markets are likely to see increased participation and the development of liquidity which can be used as a reference in future supply contract negotiations.

| ACCC Recommendation | AEMC Recommendation | Energy Council Response | Energy Council Reform Measure |
| --- | --- | --- | --- |
| 6. All explorers and producers, including non-ASX listed companies, should report consistent reserve and resource information across the east coast gas market. Reporting should be based on common price assumptions in the calculation of reserves and resources. Gas reserve and resource information should be displayed on the Gas Market Bulletin Board consistent with the COAG Energy Council Gas Market Development Plan to enhance the market information available to Bulletin Board users. | The AEMC response to ACCC recommendation 6 (p19) noted that:  AEMC Recommendation 9 addresses this issue.  Consistent with the ACCC’s recommendation, the AEMC is proposing that the COAG Energy Council makes law changes and proposes subsequent rule change requests to require that:   * all explorers and producers, including non-ASX listed companies, should report consistent reserve and resource information across the east coast gas market; and * gas reserve and resource information should be displayed on the Gas Market Bulletin Board.   In progressing the rule changes, the AEMC will consider the ACCC’s recommendation for reporting based on common price assumptions. | The Energy Council notes the ACCC’s findings that the lack of transparency and information surrounding gas reserves, the utilisation of regional pipelines, commodity and transportation prices is hindering efficient market responses to the changing conditions and are not signalling expected supply problems effectively.  These findings reinforce the need for improved reserve and resource reporting to improve the market’s ability to respond to changes in gas availability and domestic gas prices. Standardised reporting would benefit producers, users, policymakers, and potential new participants in the market.  The Energy Council agrees with the recommendations of the ACCC and AEMC for the reporting of consistent reserve and resource information across the east coast gas market by all explorers and producers. This information should be displayed on the Natural Gas Services Bulletin Board in a consistent format to increase transparency and to minimise duplication between the information collected by states, territories and the Commonwealth.  The Energy Council will implement these recommendations through improvements to the Natural Gas Services Bulletin Board (Reform Measure 14), specifically through Recommendation D of the AEMC’s Stage 2 Final Report: Information Provision, which recommends (among other things) that the entities that are required to report Bulletin Board information should be expanded to include operators of gas fields with proved and probable (2P) reserves.  The Energy Council notes that in progressing the Bulletin Board changes, consideration should be given to the ACCC’s recommendation for reporting based on common price assumptions. | **12. ABS Gas Price Index** Establish a survey-based gas price index to measure the trends in prices payable under bilateral contracts over time. The ABS is already progressing this recommendation and is currently collecting data from gas market participants.  **Lead**: Australian Bureau of Statistics  **Timeframe**: The ABS expects to first publish the index in early 2017 with ongoing updates to the index.  **Approach**: The ABS has consulted with gas producers and will commence collection of price data from sampled gas producers no later than September quarter 2016. Provided there are no significant statistical issues with the data, the intention is to publish the new natural gas extraction Producer Price Index by no later than March 2017 quarter (released April 2017).  **13. Biennial report on growth in liquidity in wholesale gas and pipeline capacity trading markets**  Establishment of a biennial report on growth in liquidity in wholesale gas and pipeline capacity trading markets.  **Lead**: AEMC  **Timeframe**: First report due by mid-2018.  **Approach**: COAG Energy Council to officially task the AEMC to undertake biennial reviews and the GMRG to develop an appropriate terms of reference. AEMC to provide first biennial report to Energy Ministers at the mid-2018 COAG Energy Council meeting.  **14. Bulletin Board improvements** Pursue improvements to the Natural Gas Services Bulletin Board by implementing recommendations A-K of the East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage Final Report: Information Provision.  **Lead**: GMPIT to progress elements requiring changes to the NGL, Regulations and the NGR.  AEMO to progress elements that do not require changes to the NGL, Regulations or NGR.  **Timeframe**: AEMO and the SCO Chair to update Ministers on progress at the late 2016 Energy Council meeting.  **Approach**: Staggered implementation consisting of a potential Regulation Impact Statement, legislative amendments, rule changes, procedure changes and other improvements progressed by AEMO. |
| 7. The COAG Energy Council should ensure that the geological and reserve/resource information collected by the states and territories and the Commonwealth, is consistent, non-duplicative and shared. Where this information is made public, the Energy Council should ensure that it is in a consistent format. | The AEMC response to ACCC recommendation 7 (p19) noted that:  Recommendation D of the AEMC’s supplementary report on information provision and the Bulletin Board addresses this issue. The AEMC’s recommendations relating to additional and consistent reporting requirements on the east coast’s Gas Market Bulletin Board will address this issue to a large degree. In making the recommendation, the AEMC has sought to minimise duplication between the information collected by states, territories the Commonwealth, and that which would be required through the Bulletin Board. | The Energy Council agrees with the ACCC recommendation that the geological and reserve/resource information collected by the states, territories and the Commonwealth should be consistent, non-duplicative and shared.  The Energy Council notes that the AEMC’s recommendation on information provision and the Bulletin Board will broadly address this issue (Reform Measure 14).  The Energy Council is working to improve consistency in geological and reserve/resource information collection through the Gas Supply Strategy Implementation Plan for Collaborative Actions (Reform Measure 1). |
| 8 - AEMO should develop and publish a monthly LNG netback price to Wallumbilla, with a clear explanatory framework and inputs. | The AEMC response to ACCC recommendations 8 and 9 (p19) noted that:  The AEMC’s Stage 1 Final Report to the Energy Council in July 2015 recommended that the ABS develop a survey-based gas price index, which would show trends in price movements. The ABS has been progressing this recommendation.  If this measure is found not to have met its objective of increasing transparency around price movements in GSAs, then the Commission will undertake consultation with industry on additional transparency measures that may be appropriate, including on the ACCC’s suggested approach. | The Energy Council notes the ACCC’s recommendation that AEMO should develop and publish a monthly LNG netback price to Wallumbilla.  In line with AEMC recommendations, the Energy Council agrees to continue its support of the development of the ABS survey-based gas price index to measure trends in price movements under bilateral contracts (Reform Measure 12), in the first instance.  The Energy Council agrees to review the adequacy of this measure as a part of the biennial reviews of gas market liquidity (Reform Measure 13). If this measure is found not to have met its objective of increasing transparency around prices in the wholesale gas markets, then the Energy Council will consider introducing additional transparency measures, including the ACCC’s recommendation for a monthly LNG netback price to Wallumbilla. |
| 9 - The AEMC should consult gas users about the potential benefits of requiring AEMO or the AER to publish a periodic price series of actual commodity gas prices paid to producers, either for the east coast generally or for Victoria and Queensland. Any price series should be weighted by volume and be based on commonly observed take or pay percentages and load factors. | The Energy Council acknowledges the ACCC’s recommendation to publish a periodic price series of actual commodity gas prices paid to producers. The Energy Council notes the AEMC’s response that stakeholder feedback highlighted concerns with this approach, such as the potential for the index to be manipulated and the risk of crowding out commercial entities which may be better placed to produce this service.  In line with AEMC recommendations, the Energy Council agrees to continue its support of the development of the ABS survey-based gas price index to measure trends in price movements under bilateral contracts (Reform Measure 12), in the first instance.  The Energy Council agrees to review the adequacy of this measure as a part of the biennial reviews of gas market liquidity (Reform Measure 13). If this measure is found not to have met its objective of increasing transparency around price movements in GSAs, then the Energy Council will consider additional transparency measures that may be appropriate, including on the ACCC’s suggested price series. |
|  | 12. COAG Energy Council to task the Commission with providing a biennial report on growth in liquidity in wholesale gas and pipeline capacity trading markets, with the first report due by July 2018. | The Energy Council tasks the AEMC to undertake a biennial report on growth in liquidity in wholesale gas and pipeline capacity trading markets (Reform Measure 13), with terms of reference to be provided by officials.  Monitoring liquidity on an ongoing basis will allow industry participants and policy makers to understand how the trading markets are performing, the value they are providing to gas market participants, and how they could be improved to better meet market participants' needs.  This report will be an important mechanism for reviewing the implementation of current reform measures and a key input for assessing the need for future reforms. |
|  | 9. Improvements should be made to the Natural Gas Services Bulletin Board to enhance the breadth and accuracy of information provided to the market, as detailed in recommendations A-K of the East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage Final Report: Information Provision. | The Energy Council agrees to pursue improvements to the Natural Gas Services Bulletin Board (Reform Measure 14) to enhance the breadth and accuracy of information provided to the market. The ACCC’s findings further strengthen the AEMC’s recommendations for improving market transparency through these improvements to the Bulletin Board.  The Energy Council tasks the Gas Market Project Implementation Team (GMPIT) to implement recommendations A-K of the East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage Final Report: Information Provision that require amendments to the NGL, Regulations and NGR.  The Energy Council tasks AEMO to immediately progress the AEMC’s recommended Bulletin Board improvements that do not require changes to the NGL, Regulations or NGR. |
|  | 13. COAG Energy Council to make the necessary amendments to the NGL and Regulations to add new reporting entities to the Bulletin Board framework. | The Energy Council agrees to pursue improvements to the Natural Gas Services Bulletin Board to enhance the breadth and accuracy of information provided to the market. Improvements should consider recommendations A-K of the East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage Final Report: Information Provision.  The Energy Council tasks GMPIT to progress improvements to the Bulletin Board that require amendments to the NGL and regulations, including the addition of new reporting entities to the Bulletin Board framework (Reform Measure 14). |
|  | 14. COAG Energy Council to propose to the Commission changes to the NGR that, among other things, establish a new reporting model and reporting standard, and a new registration framework for the Bulletin Board. | The Energy Council agrees to pursue improvements to the Natural Gas Services Bulletin Board to enhance the breadth and accuracy of information provided to the market (Reform Measure 14). Improvements should consider recommendations A-K of the East Coast Wholesale Gas Market and Pipeline Frameworks Review Stage Final Report: Information Provision.  The Energy Council tasks GMPIT to prepare a rule change request for any elements which require changes to the NGR including, among other things, establishing a new reporting model and reporting standard, and a new registration framework for the Bulletin Board (Reform Measure 14). |
|  | 15. COAG Energy Council to request that AEMO immediately progress the Commission's recommended Bulletin Board improvements that do not require changes to the NGL, Regulations or NGR. | The Energy Council tasks AEMO to immediately progress the AEMC’s recommended Bulletin Board improvements that do not require changes to the NGL, Regulations or NGR (Reform Measure 14).  Energy Council officials will continue to work with AEMO to progress ongoing improvements to the Bulletin Board consistent with developing a one-stop-shop for gas market information. |

# Implementation and Governance

|  |  |  |  |
| --- | --- | --- | --- |
| ACCC Recommendation | AEMC Recommendation | Energy Council Response | Energy Council Reform Measure |
|  | 10. COAG Energy Council to establish, through an inter-governmental agreement, a dedicated Gas Reform Group (GRG) with a full-time project management office tasked with developing the package of changes to the NGL, NGR and any subordinate instruments to implement the Commission's recommended wholesale gas and pipeline capacity market reforms (Recommendations 1-8). The GRG should take into account any preferred and suggested design elements outlined by the Commission. | The Energy Council notes the AEMC’s proposal to establish a Gas Reform Group to design, develop and implement gas market reform measures identified within the report. The report outlines the proposal for this independent Gas Reform Group as a new entity separate from, but interacting with, the existing SCO structure.  While agreeing with many aspects of the model, including the need for greater industry interaction and a focus on technical solutions, the Energy Council considers the AEMC proposal is not the optimal approach.  The Energy Council has agreed to an alternative SCO-led governance model (Reform Measure 15). This augmented approach builds in many elements of the AEMC model and emphasises the continuing role of SCO in ensuring accountability and direction in line with the COAG Energy Council’s priorities.  Further detail on the design of the reform group is provided in Appendix B of the Energy Council’s Gas Market Reform Package Bulletin. | **15. Creation of a time-limited Gas Market Reform Group** Creation of a Gas Market Reform Group, with an independent Chair to facilitate technical working groups with industry members to design and develop technical solutions to reform measures, supported by a Project Manager, senior technical advisor and secretariat staff functions.  **Lead**: GMPIT  **Timeframe**: Establishment work to commence on agreement from Energy Council, with the group to be operational by December 2016.  **Approach**: Establishment of the GMRG, including appointment of an independent chair, project manager, senior technical advisor and technical working groups. |