

GAS MARKET LEADERS GROUP

Gas Industry and Users Working Group To Develop A Gas Market Development Plan

Terms of Reference

Background

The Ministerial Council on Energy (MCE) agreed in April 2004 to expand the gas market element of the energy market reform program to accelerate the development of a reliable, competitive and secure natural gas market and to further increase the penetration of natural gas.

In December 2004, the MCE approved Principles for Gas Market Development ([Appendix 1](#)) as a basis for development of the Australian gas wholesale market(s).

In pursuing the MCE's objective, the Allen Consulting Group (ACG) has provided a report to Standing Committee of Officials (SCO) on "*Options for the development of the Australian wholesale gas market*". SCO has accepted the final report and endorses its finding that further reform of Australian wholesale gas markets is required to improve transparency, enhance competition and lower potential barriers to new market entry.

Gas Market Leaders Group

SCO notes the gas industry's preference for an industry led approach to gas market development and considers that gas industry and users should have the opportunity to develop a gas market development plan.

SCO invites all sectors of the gas industry and users to participate in a Gas Market Leaders Group to develop a gas market development plan which meets the MCE objectives to accelerate the development of a reliable, competitive and secure natural gas market and which is consistent with the MCE Principles for Gas Market Development.

The Leaders Group is to comprise an Independent Chair appointed by SCO and two representatives from each of the following sectors of the natural gas market;

- gas producers;
- gas network owners and operators (one from transmission and one from distribution);
- gas retailers;
- gas retail and wholesale market operators (eg, Vencorp, REMCo or GMCo); and
- gas users.

The Chair will report to the Chair of MCE SCO providing regular (bi-monthly) progress reports. The MCE Secretariat will provide secretariat services for the Leaders Group and the Chair.

If the Plan does not satisfy the minimum requirement of significantly improving market transparency by the required date, then the MCE will consider developing and mandating its own gas market development plan

Scope of Work and Deliverables

The Leaders Group is to develop a Gas Market Development Plan to be presented to MCE SCO by 30 June 2006 which could deliver on MCE's objectives for a competitive, reliable and secure natural gas market delivering increased transparency, promoting further efficient investment in gas infrastructure and providing efficient management of supply and demand interruptions, as set out in MCE's Expanded Gas Program.

Specifically, the Plan should provide:

- further development of Options 2 or 3 identified in the ACG Report; or
- an alternative market development plan that provides equivalent benefits in terms of transparency and lowering barriers to market entry.

Key elements of the Gas Market Development Plan should include:

- The level of information on system capabilities, supply and demand information, including secondary trades, to be provided to the market in order to increase transparency;
- How such information would be provided to the market in a transparent and accessible manner, eg market based electronic facilities to publish trading and physical system information;
- Additional market arrangements that would promote greater levels of liquidity and competition and how these arrangements would be implemented, eg the phasing in of spot market trading at major trading nodes;
- Consideration of whether publication of an annual report on the performance of the market and the emerging transmission and supply constraints (similar to the NEMMCO Statement of Opportunities) would be beneficial to gas market development;
- An implementation timetable, including milestones; and
- The identification of any regulatory and rulemaking requirements which jurisdictions would need to put in place in order to facilitate implementation of the plan.

In developing its plan, the Leaders Group should take account of the following:

- MCE's Expanded Gas Program of 19 May 2004;
- The MCE Gas Market Development Principles in Appendix 1;
- The variations between jurisdictions' gas demand profiles, network topology, and industry structure;
- The new governance and institutional arrangements for the energy sector;
- Associated gas market reform initiatives currently being undertaken by the MCE; and
- The findings of ACG's final report.

MCE PRINCIPLES FOR GAS MARKET DEVELOPMENT

Industry should be guided by the following MCE Principles for Gas Market Development when considering future gas market arrangements.

- Information on market and system operations and capabilities at all stages of the gas supply chain (subject to recognition of existing contractual confidentiality) should be publicly available and frequently updated.
- Gas market structure to facilitate a competitive market in all sectors.
- Gas market participants should be able to freely trade between pipelines, regions and basins.
- There should be regulatory certainty and consistency across all jurisdictions.
- Market design and institutional requirements responsive to and reflective of the needs of the market and market participants.