

---

# Ministerial Council on Energy

## Statement on Principles for Gas Market Development

### December 2004

---

#### **Introduction**

On 30 August 2004, the Ministerial Council on Energy released the *Draft Principles for Gas Market Development – Consultation Paper*. The Consultation Paper aimed to facilitate industry consultation on fundamental principles and design concepts to guide the future development of Australian gas markets.

#### **Industry Comment on Draft Principles**

In general, industry comment was supportive of the Draft Principles set out in the Consultation Paper. However, it was noted that the Draft Principles' high level nature made it difficult to clearly determine their practical impact on the future development of Australian gas markets. As a result, industry comment focussed on the possible implications on the future development of Australian gas markets, rather than on the Draft Principles themselves.

#### **Next Steps**

Industry comment about possible future market development has been taken into account in developing the terms of reference for a consultancy on Australian wholesale gas markets, including issues raised in relation to mandated spot markets. The consultancy will explore the costs/benefits of possible gas market development options and the extent to which government action and/or market evolution will facilitate desirable gas market development.

The Gas Market Development Principles agreed by the MCE are attached.

# MINISTERIAL COUNCIL ON ENERGY

## PRINCIPLES FOR GAS MARKET DEVELOPMENT

### 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.

This paper sets out the fundamental principles that will guide the future development of Australian wholesale gas market(s). They aim to encourage transparency, new market entrants, investment in gas infrastructure such as pipelines and storage facilities, and provide a market mechanism to assist in managing supply and demand interruptions. The principles are:

- *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.*

Each of these principles is elaborated on below.

- *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.*

Efficient and competitive markets are facilitated where participants and potential entrants have information available to them at low cost to estimate future patterns of supply and demand and the opportunities for investment. Information increases the efficiency of forward markets, which assists market participants to establish reference prices for contracting and risk management.

Transparency would help to promote efficient investment which is essential for facilitating a secure and reliable supply of gas. It would also assist in the effective management of supply interruptions by improving assessment and decision making by governments on whether to intervene, on what basis, and where to most effectively direct allocation of available supplies.

- ***Gas market structure to facilitate a competitive market in all sectors.***

As noted above while Australian wholesale gas market(s) are becoming more competitive, the structure of the industry and patterns of consumption suggest that many markets are likely to remain less than optimally competitive for an extended time.

Where market power exists within one element of the supply chain the potential exists for this to compromise the efficient operation of potentially competitive market segments. In these circumstances there will be an ongoing role for regulatory intervention in order to preclude the exercise of market power. Competitive outcomes could be supported by facilitating market behaviours which minimise the need for regulatory intervention.

- ***Gas market participants should be able to freely trade between pipelines, regions and basins.***

Short-term trading between market participants provides greater flexibility to respond to changes in supply and demand improving supply reliability. Institutional reforms and new investment in pipeline capacity has increased the extent of short-term trading in Australian wholesale gas market(s) leading to greater competition, improved supply flexibility and security.

Further gas market development should expand opportunities for short-term trading. This may be achieved by the growth of spot markets for both sale and transport of gas that does not require participants to incur the high transaction costs associated with the negotiation of long-term contracts.

- ***As far as practicable, there should be regulatory certainty and consistency across all jurisdictions.***

The progressive integration of Australian wholesale gas market(s) provides substantial public benefits in terms of greater competition and more reliable supply through access to multiple sources of gas. While different jurisdictional market characteristics will need to be considered and accounted for, greater regulatory certainty and consistency will encourage investment by lowering barriers to entry and reducing the regulatory overheads and risk borne by market participants.

- ***Market design and institutional requirements responsive to and reflective of the needs of the market and market participants.***

The gas market design and institutional arrangements need to be responsive to and consistent with major current and future demand sources such as industrial, residential, mining and power generation. As gas markets become increasingly competitive and sources of supply to individual markets expand, market participants should increasingly drive the reform of market arrangements. In this context there may be a role for an independent body(ies) to provide ongoing wholesale gas market management. Governments may have a role in facilitating the process of market development and ensuring all stakeholders interests are appropriately represented or considered and balanced.