

Gas Market Leaders Group Synopsis of Ninth Meeting – 17 August 2007

The ninth meeting of the Gas Market Leaders Group (GMLG) was held in Melbourne on 17 August 2007. Major issues considered at the meeting were as follows.

1. Bulletin Board (BB)

The GMLG considered a report on the BB business and data requirements, which incorporated the outcomes of the associated public consultation process. The Bulletin Board Working Group (BBWG) noted 16 written submissions were received and that there is broad support for the BB concept.

The BBWG was able to reach consensus and provide the GMLG with firm recommendations on all issues except on how pipeline information should be aggregated and on the publication of historical flow data. After considerable discussion, the GMLG agreed:

- a. pipeline delivery nominations will be posted at the individual pipeline level;
- b. pipeline delivery flow data will be provided by pipeline operators and posted on the BB at the individual pipeline level; and
- c. production and/or storage flow data will be provided by production and storage operators and posted at individual production facility level as well as aggregated to the supply hub.

The BBWG will now finalise the BB Business and Data Requirements Report, including responses to the consultation submissions, for publication in September.

An additional \$100,000 had been approved by SCO to meet the request by the GMLG for funding the drafting of the BB rules.

2. Short Term Trading Market (STTM)

The GMLG considered a report from KPMG who was contracted to provide advice on the following questions:

- Can an STTM that delivers the desired outcomes and is compatible with the Principles, be established?
- If not, what changes to Principles and/or outcomes are required?

KPMG provided a presentation on their report, which concluded that a STTM could not achieve the desired outcomes compatible with the Augmented Gas Market Principles. They outlined recommended amendments to the Principles and desired outcomes, and then three options for a market - status quo, intra-day trading market and daily trading market - with a preference for an intra-day trading market.

Revised Principles

The GMLG noted that KPMG's proposed changes to the Augmented Gas Market Principles were generally an improvement. However, it was agreed that there was no need to endorse recommended changes to the five original MCE Principles (i.e. information on market systems; gas market structure to facilitate competition; free trade between pipelines and jurisdictions; regulatory certainty across jurisdictions; and, market design responsive to market participant needs) as they were largely of

a word-smithing nature and there seemed little point in endorsing the changes, especially in view of the extensive SCO/MCE review process it would initiate.

However, the GMLG agreed to modify the Augmented Principles set by the GMLG relating to the fifth MCE Principle.

In particular, Members debated the treatment to be given to existing commercial arrangements – a key issue. It was noted the market cannot work if consent on basic operation issues is not reached. Accordingly, as a principle, members suggested operational matters be dealt with by the Rules and may be imposed but only to the extent required to operate the market. Accordingly, the GMLG inserted Principle 5(c) (the STTMWG is to define the scope of operational issues).

The revised Augmented Gas Market Principles agreed by the GMLG follow (note that changes have only been made to the sub-principles of Principle 5):

1. 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
2. Gas market structure to facilitate a competitive market in all sectors
3. Gas market participants should be able to freely trade between pipelines, regions and basins.
4. There should be regulatory certainty and consistency across all jurisdictions.
5. The market design and institutional requirements should be responsive to and reflective of the needs of the market and market participants.
 - (a) Take account of the physical characteristics of the network;
 - (b) Recognise the fundamental importance of bi-lateral contractual arrangements which underpin gas market development;
 - (c) Market rules may be imposed to vary existing contracts for operational issues. Other than changes, imposed by market rules for this purpose, the STTM;
 - will not involve changes to existing commercial arrangements without consent;
 - will allow contracts to evolve due to competitive forces to maximise the market benefits; and
 - the design of the initial market will facilitate the evolution of supporting services/products and contracts.
 - (d) Take account of the interface with the National Energy Market;
 - (e) Minimise the need for Government intervention in the operation of the market;
 - (f) Complement the work of the National Gas Emergency Response Advisory Committee (NGERAC); and
 - (g) Maximise value and benefits.

Market Outcomes

The GMLG noted that the list of outcomes for the STTM was extracted from

various statements in the Executive Summary of the National Gas Market Development Plan. The list had not been formally established as a consolidated set of outcomes and in some aspects was repetitious of the statements in the Principles. Hence, the GMLG agreed to formally adopt the following revised outcomes for the STTM:

1. Provide transparent price signals for gas delivered and withdrawn from defined market hubs;
2. Enable the participation of all major gas users, including direct transmission customers (wherever practicable);
3. Efficiently price congestion on the system (including facilitating a market based solution to emergencies if possible); and
4. Facilitate secondary trading (including demand side response) from short term market prices.

Conditions

The GMLG did not accept the KPMG advice that the additional costs of moving to an intra-day market are minimal vis-à-vis a daily market. Also, there is no need to move to an intra-day market in NSW due to the size of the available linepack and lack of gas fired generation. Hence the GMLG confirmed its support for a daily trading market, with the possibility of development to an intra-day market in the future.

The GMLG noted that the market would need to be a physical market, not a financial overlay as originally envisaged.

The GMLG agreed to the following conditions for the development of a daily market.

1. One consistent model applied nationally (except Victoria).
2. Daily market is a physical market, not a financial overlay. Need for alignment of nominations across shippers, networks and pipeliners.
3. Facilitation of standardised STTM hub delivery contracts to ensure maximum participation in the STTM at the Hub.
4. Market design is not to preclude an intra-day market developing in the future.
5. Funding to ensure appropriate level of support for development of STTM.
6. Attempt to incorporate features in the design that would enable the proposed New South Wales gas continuity scheme to be discontinued.
7. Ensure that new risks to the market are manageable.
8. Undertake a feasibility study of an intra-day market once the daily market is established.

The GMLG requested the STTMWG to revise the budget for the development of the STTM and the long term plan for the delivery of a functional design. GMLG agreed to use existing funding to get to a Go/No Go decision point and then consider the further funding required, including resourcing for a project team.

The GMLG is to advise SCO and seek their confirmation of the changes to the Augmented Gas Market Principles, the set of STTM Outcomes, the agreed

conditions for the development of the market and a revised budget and delivery plan.

3. BB/STTM contract issues

The GMLG noted difficulties with resolving the project plans between VENCORP/GMC and the Commonwealth and a proposed meeting in the week following to resolve these.

4. Australian Energy Market Operator (AEMO)

The GMLG considered the level of consistency between the GMLG recommendations for the governance arrangements of AEMO and those being developed by the Market Operator Working Group (MOWG). GMLG noted consistency on most issues and clarified its own position on issues that are still evolving.

In particular, the GMLG agreed:

- a. with the MOWG approach to use a Selection Panel (made up of two Government nominees, two industry nominees and an independent Chair to be nominated as the Chair of ASIC or the Chair of AICD) to select the AEMO Board Directors in perpetuity (rather than just for the initial appointments).
- b. with the application of a skills matrix, consistent with that currently drafted, as the basis for selecting Directors, provided the power to change the skills matrix is reserved to the owners of AEMO, assuming industry's inclusion in such ownership.
- c. AEMO should have the flexibility to expand the scope of its functions, subject to approval by the owners and consistency with relevant market rules.

Also, the GMLG proposed:

- d. the AEMO Chair should also be the Chair of the Selection Panel (excepting where it is the AEMO Chair being selected). Alternately, and at the very least, the AEMO Chair should be a (sixth) member of the Selection Panel.
- e. that it be made clear the Selection Panel has the full authority to select the Directors. In particular there should not be a role for the MCE in the appointment process, as is being considered.
- f. in the interests of reaching a compromise position on the ownership of AEMO, to support a 50:50 joint government:industry ownership position (noting GMLG's preference remains with industry ownership).
- g. to re-affirm the process of rule-making recommended in the GMLG's National Gas Market Development Plan – i.e. the AEMO would develop the rules, ensuring appropriate consultation, and submit the proposed changes to the AEMC, who would either approve the changes or not approve the changes, leaving it to AEMO to repeat the process. It was commented that the AEMC rule-making process appears to be designed to retain the status quo for the electricity industry, which is not consistent with that applying for the gas industry. (It was noted that clarification on this issue is to be sought with the AEMC through the MOWG process).