

DRAFT GAS MARKET PRINCIPLES

CONSULTATION PAPER

**Ministerial Council on Energy
Standing Committee of Officials**

AUGUST 2004

Draft Principles for Gas Market Development

The Ministerial Council on Energy's (MCE) Standing Committee of Officials (SCO) is seeking specific comments and/or views on the Draft Principles for Gas Market Development. Stakeholder comments will be taken into account prior to finalising the principles for MCE's consideration.

It is intended to make electronic submissions publicly available on the Ministerial Council on Energy website (www.mce.gov.au) at the end of the process. If you do not wish all or part of your submission made publicly available, or you consider any part of your submission to be confidential or commercial-in-confidence, you should make this clear in your submission.

Submissions should be received by Friday 24 September and sent or emailed to:

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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. The expanded gas market element provided for:

- The development of fundamental principles and design concepts for a gas market, in consultation with industry.
- A consultancy study investigating future options for Australia's gas market and infrastructure based on the fundamental market principles and industry consultation.
- A gas market development plan arising from the consultancy study and an MCE response to the Productivity Commission review of the National Gas Access Regime.

This paper addresses the first of the above points and proposes a draft set of principles for the gas market to encourage transparency, new market entrants, investment in gas infrastructure such as storage facilities and provide a market mechanism to assist in managing supply and demand interruptions. The intention is for the draft set of principles to be used as the basis of an initial phase of consultation with industry. Following initial industry consultation the principles would be revised and would guide a consultancy to explore options for the further development of the Australian wholesale gas market.

Gas Market Principles

To provide for a reliable, competitive and efficient gas market, responsive to consumer demand, the following principles are proposed to underpin wholesale gas market development activities:

- *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.*
- *The gas market should be able to respond effectively to price signals in the electricity market*
- *There should be regulatory certainty and consistency across all jurisdictions.*
- *Market design and institutional requirements responsive to the needs of the market.*

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 facilitate security of supply by promoting efficient investment which is essential for 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.

Industry is invited to comment on the level of information disclosure and reporting on actual and forecast supply and demand on a periodic basis and scheduled and non-scheduled supply interruptions. This could include information on:

- production capacity and actual production;
- pipeline capacity and spare pipeline capacity;
- tariffs for the range of services offered by gas pipelines;
- gas storage capacity and net drawdowns;
- system demand at appropriate intervals; and
- pricing at relevant reference points.

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

As noted above while Australian gas markets 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 and support the development of competition.

Industry is invited to comment on options for achieving a competitive market structure.

- ***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. The gas market should facilitate short-term trading and promote the efficient use of gas resources and

transportation capacity. This may be achieved by the creation 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.

Industry is invited to comment on mechanisms to support effective trading of gas, such as:

- a flexible mechanism for trading (including pipeline capacity);
- identification and reduction of “structural” barriers to trading;
- standardised contracts for short term trading;
- an information collation point.

- ***The gas market should be able to respond effectively to price signals in the electricity market.***

There should be no barriers to the efficient use of gas in either gas or electricity markets. In particular for efficiency reasons, short-term markets for gas should be aligned as far as practical with the electricity market in order to provide appropriate price signals for gas fired generation in the electricity market.

Industry is invited to comment on measures to align arrangements between the electricity and gas markets.

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

The progressive integration of Australian gas markets provides substantial public benefits in terms of greater competition and more reliable supply through access to multiple sources of gas. Greater regulatory certainty and consistency will encourage investment by lowering barriers to entry and reducing the regulatory overheads and risk borne by market participants.

The issue of providing regulatory certainty will be addressed in the context of the MCE’s response to the Productivity Commission’s review of the Gas Access Regime.

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

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 to provide ongoing wholesale gas market management.

Industry is invited to comment on options for an appropriate body to manage the wholesale gas market.