

Supplement to the Ministerial Council on Energy Report to the Council of Australian Governments on

Reform of Energy Markets

Expanded Gas Program

19 May 2004

The wider penetration of natural gas is a key priority for the Ministerial Council on Energy (MCE), as reflected in the December 2003 report to the Council of Australian Governments on *Reform of Energy Markets*. The MCE also considered gas market issues at its meeting on 2 April 2004, in the context of the recent supply interruption at the Moomba Gas Processing facility.

MCE Ministers have agreed to expand the gas market element of the energy market reform program to accelerate development of a reliable, competitive and secure natural gas market. This supplement replaces section 4.5, the Natural Gas Penetration component, of the December 2003 MCE Report on *Reform of Energy Markets* and outlines further initiatives to examine gas infrastructure requirements and progress gas market development.

Summary

The MCE has noted the national importance of gas supply in the national energy framework, including the need for policies which encourage efficient investment in Australian oil and gas exploration and development, and which facilitate the creation of domestic gas markets.

The medium to long term supply of gas to eastern Australia is to be considered in the context of security of supply, greenhouse response and cost to consumers. Natural gas is expected to play a growing role in Australia's energy supply, due to its versatility in direct use, electricity generation and transport, its potential for lower transmission costs and its low greenhouse emissions relative to other fossil energy sources. Australia's gas markets are developing with the discovery of new reserves, increased exploration expenditure, and the construction of interstate pipelines. The electricity and gas sectors are also converging through the growing use of gas for electricity generation and the emergence of 'dual-fuel' retailing.

This expanded MCE work program addresses both short and long term gas market development and infrastructure needs. It integrates MCE consideration of the Productivity Commission Review of the National Gas Access Regime (final report due in June 2004) with recommendations from the Gas Infrastructure Taskforce established after the January 2004 Moomba incident and the review of upstream gas issues by the Ministerial Council on Mineral and Petroleum Resources. Industry and users will be consulted in the progressive development of an MCE gas market development plan.

1. Gas Market Development

The Australian natural gas market has developed substantially over the past decade. The Council of Australian Governments (CoAG) program for free trade in natural gas has removed barriers to interstate trade in natural gas and a National Gas Pipelines Access Regime has been established.

New gas fields have been developed, pipeline infrastructure has increased, and competition has been introduced into downstream markets. In addition, consumption of natural gas has increased and a national gas grid is developing.

Governments have an important facilitation role in gas market development through the establishment of appropriate governance and regulatory arrangements. The CoAG Energy Market Review found that there was scope for further market development by increasing competition in upstream markets and reducing regulatory uncertainty.

The MCE will work with industry to develop a high level agreement on the fundamental principles and design concepts for the gas market and examine options, such as increased transparency, to encourage new market entrants, promote further efficient investment in gas infrastructure and provide efficient management of supply and demand interruptions.

The long-term security of supply of gas to Australian power generators and to industry, against a background of increasing demand for direct access to Australia's gas resources will also be investigated.

2. Gas Infrastructure

While a more integrated gas supply and pipeline network is developing, the MCE recognises that further work is required to ensure the delivery of reliable, competitive and secure gas supplies throughout Australia.

Investment in greenfield gas pipelines and networks is expected to be facilitated through the Productivity Commission review of the National Gas Access Regime, as announced on 13 June 2003. The Commission is to report in mid 2004 on:

- the benefits, costs and effects of the Gas Access Regime, including its effect on investment in the sector and in upstream and downstream markets;
- improvements to the Gas Access Regime, its objectives and its application;
- how the Gas Access Regime might better facilitate a competitive market for energy services;
- the appropriate consistency between the Gas Code, National Access Regime (Part IIIA of the *Trade Practices Act 1974*) and other regimes;
- the institutional and decision making arrangements under the Gas Access Regime; and
- the appropriateness of including in the Gas Code minimum (price and non-price) requirements for access to users.

The MCE will respond to the Productivity Commission report at the end of 2004. This will form part of the MCE's in-principle commitment to develop a national approach to energy access under the *Trade Practices Act 1974*, covering electricity and gas transmission and distribution.

In addition to the Productivity Commission report, the MCE will also consider the level of investment in gas infrastructure, including possible regulatory reform to facilitate the delivery of gas supplies into the south east market from the west and/or north of Australia, should they be required in the future.

The work on gas infrastructure and gas market development will be undertaken in consultation with industry and include consideration of:

- industry comments regarding long term policy issues for the gas industry outlined in the joint SA / VIC / NSW / ACT Infrastructure Task Force's Final Report prepared following the January 2004 Moomba Gas Processing Facility incident; and
- enhanced penetration of natural gas, against a background of increasing demand for direct access to Australia's gas resources.

3. Upstream Gas

MCE Ministers noted the CoAG Energy Market Review's recommendation to preclude states from exempting future arrangements for the joint marketing of natural gas from the competition rules of the *Trade Practices Act 1974*. Proponents of future arrangements for the joint marketing of gas, which raise competition concerns, may seek authorisation by the ACCC on a case by case basis.

The Ministerial Council on Mineral and Petroleum Resources (MCMPR) has policy responsibility for upstream gas issues and is:

- undertaking a review of appropriate treatment of unproduced areas in existing production licences due for renewal;
- undertaking a review of the gas industry's principles for third party access to upstream facilities; and
- finalising its position on the CoAG Review's recommendation to preclude states and territories from exempting future arrangements for the joint marketing of natural gas from the competition rules of the *Trade Practices Act 1974*.

The MCMPR will advise the MCE of its conclusions in mid 2004.

4. Timelines for Further Work

A detailed work program has been developed and approved by the MCE to implement the gas market development component of the Energy Market Reform Program. Indicative timelines and deliverables are outlined below.

June - July 2004

Gas Market Development	Standing Committee of Officials (SCO) to develop gas market issues paper on fundamental principles and design concepts for a gas market, in consultation with industry.
Gas Infrastructure	Receipt of Productivity Commission review of the National Gas Access Regime.
Upstream Gas	MCMPR to review treatment of unproduced areas, access to upstream facilities and exempting future arrangements for the joint marketing of natural gas.

August 2004

Gas Market Development	MCE to agree fundamental principles for a gas market.
Upstream Gas	MCE response to MCMPR review of treatment of unproduced areas, access to upstream facilities and exempting future arrangements for the joint marketing of natural gas.

September - November 2004

Gas Market Development	Consultancy study, investigating future options for Australia's gas market and infrastructure based on the fundamental market principles and industry consultation.
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December 2004

Gas Market Development	MCE agree a gas market development plan arising from the consultancy study.
Gas Infrastructure	MCE response to the Productivity Commission review of the National Gas Access Regime.

The Ministerial Council on Mineral and Petroleum Resources will participate in this work program to facilitate a whole-of-gas sector approach. Extensive consultation with industry will also be undertaken.