

Gas Market Leaders Group Synopsis of Fifteenth Meeting – 19 November 2008

The fifteenth meeting of the Gas Market Leaders Group (GMLG) was held via teleconference on 19 November 2008. Major issues considered at the meeting were as follows:

1. Extension of BB and GSOO nationally

It was noted that discussions were in progress with officials from Western Australia and the Northern Territory on their possible inclusion in the Bulletin Board and Gas Statement of Opportunities.

2. STTM Hub for the ACT

Discussions are in progress with ACT officials on the merits of developing a Short Term Trading Market (STTM) Hub for the Australian Capital Territory in parallel with Hubs for Sydney and Adelaide.

3. Issue of GSOO Scoping Paper

Members endorsed the paper “*Scope of the National Gas Statement of Opportunities*”, prepared by the GSOO Steering Committee and incorporating outcomes from industry consultations undertaken during August 2008.

The paper is to be published on the MCE website and provided to the Legal and Regulatory Working Group to facilitate drafting of appropriate provisions in the National Gas Laws and National Gas Rules.

4. STTM on-the-day scheduling

Members noted that the issue of on-the-day scheduling had been considered by the STTM Steering Committee. While this feature has not been included in the STTM initial, Members noted that it had always been envisaged it would be included in future reviews of the STTM after commencement.

5. Gas Market Development Principles

The GMLG endorsed the inclusion of an additional sub-principle (Number 5(g)) in the Gas Market Development Principles in relation to the STTM market design. The new sub-principle recognises the importance of maintaining incentives for long term investment in infrastructure. Attached is a complete set of the Augmented Principles, together with Market Outcomes and Conditions.

6. STTM backhaul model and capacity payments

Members endorsed the proposed Backhaul Model, Capacity Payment Design and exemption of intraday charges for Backhaul.

7. STTM bid constraints and negative pricing

Members endorsed the STTM Steering Committee recommendation that no additional constraints be contemplated for bids and offers and that a negative lower price limit be adopted (to be set during the process of determining VoLL).

8. Upcoming STTM issues for GMLG

Members noted the upcoming issues, namely market timing; market operator services tender framework; contingency gas; settlement shortfalls and surpluses; and settlement equations.

Members confirmed the final meeting date for 2008:

- Wednesday 17 December 2008 (10am face to face meeting - Melbourne).

PRINCIPLES FOR GAS MARKET DEVELOPMENT

Revised Augmented Gas Market Development Principles

(Note that changes have only been made to the original MCE Principles, established in December 2004, with respect to the addition of sub-principles to the MCE Principle 5. The latest change (November 2008) is to insert a new sub principle 5(g)):

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);
 - (g) ¹Not reduce incentives for long term investment in infrastructure; and
 - (h) Maximise value and benefits.

¹ Sub-clause 5(g) inserted at GMLG meeting on 19 November 2008

Market Outcomes

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

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.

Updated 19 November 2008