

Reforming Australia's East Coast Gas Market



AUSTRALIAN ENERGY MARKET COMMISSION
APER Korea – 28 September 2016

National Gas Rules made by the Australian Energy Market Commission apply to three natural gas spot markets.

The markets are currently managed by the Australian Energy Market Operator with separate price-setting arrangements

QLD: Wallumbilla Gas Supply Hub

QLD, NSW & SA: Short Term Trading Market which has three hubs; Sydney, Brisbane, Adelaide

VIC: Declared Wholesale Gas Market

LEGEND

- CONVENTIONAL GAS RESOURCES
- UNCONVENTIONAL COAL SEAM GAS
- MAJOR GAS BASINS
- EXISTING PIPELINES

COOPER
BASIN

OTWAY
BASIN

BASS
BASIN

GIPPSLAND
BASIN

BOWEN BASIN

SURAT BASIN

GLADSTONE



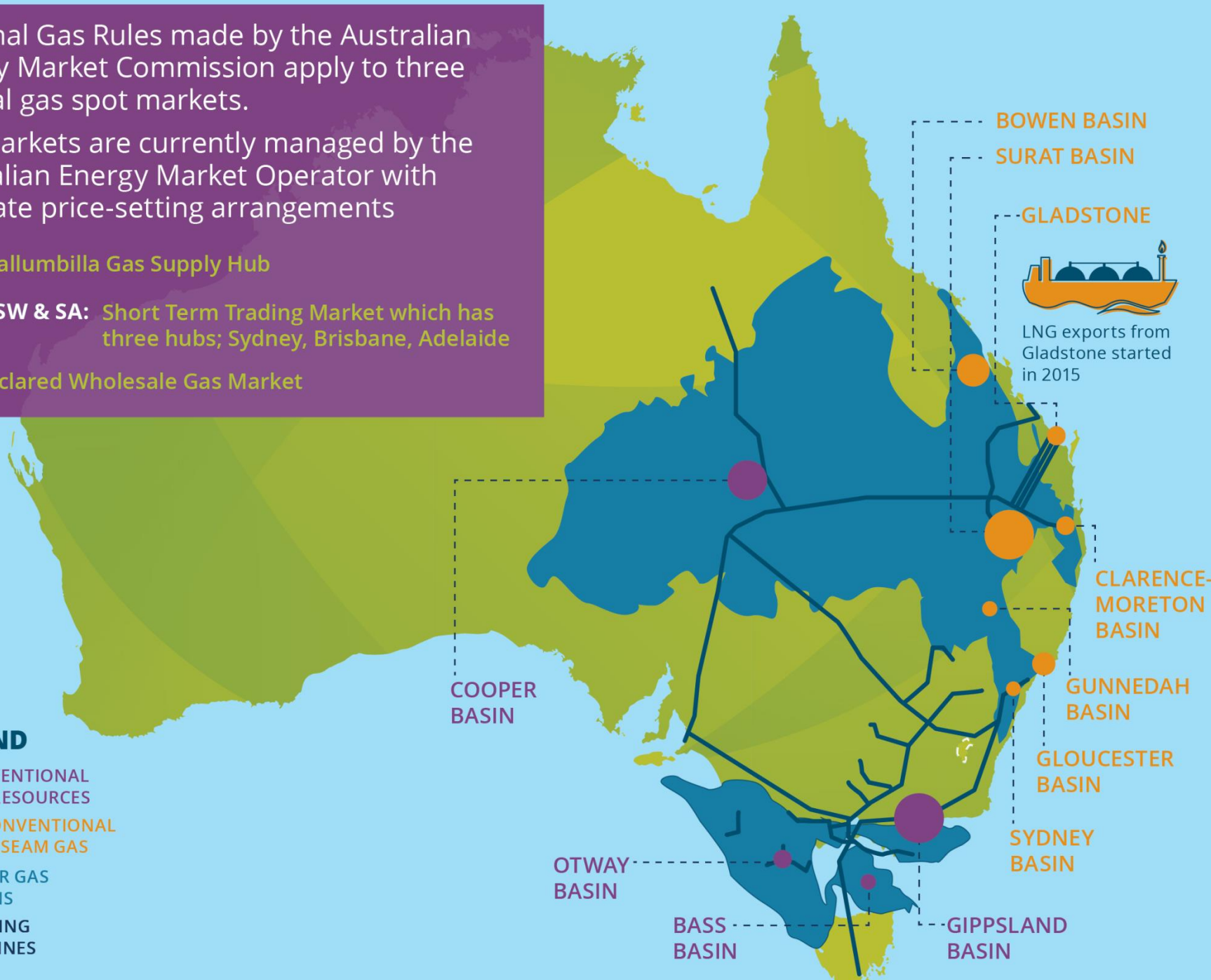
LNG exports from
Gladstone started
in 2015

CLARENCE-
MORETON
BASIN

GUNNEDAH
BASIN

GLOUCESTER
BASIN

SYDNEY
BASIN



How gas is bought and sold

HOW GAS IS BOUGHT AND SOLD



PRODUCERS

Sell direct to retailers and big industrial customers



RETAILERS AND BIG INDUSTRIAL CUSTOMERS

Once retailers and big industrial customers have sourced their gas they negotiate other contracts with transmission and distribution networks to transport gas to end users



TRANSMISSION PIPES

Mostly unregulated with negotiated contracts

Decisions on whether pipelines should be regulated are made by energy ministers in each jurisdiction depending on the degree of pipeline competition in specific areas and following recommendations from the National Competition Council



DISTRIBUTION PIPES

The major distribution pipelines are regulated with reference prices set by the Australian Energy Regulator



HOUSEHOLDS AND BUSINESSES

Australia's gas markets are evolving



The east coast market is now interconnected and natural gas flows are more dynamic, moving across the entire network in response to demand



Long term contracts between gas producers and their customers are coming up for renewal



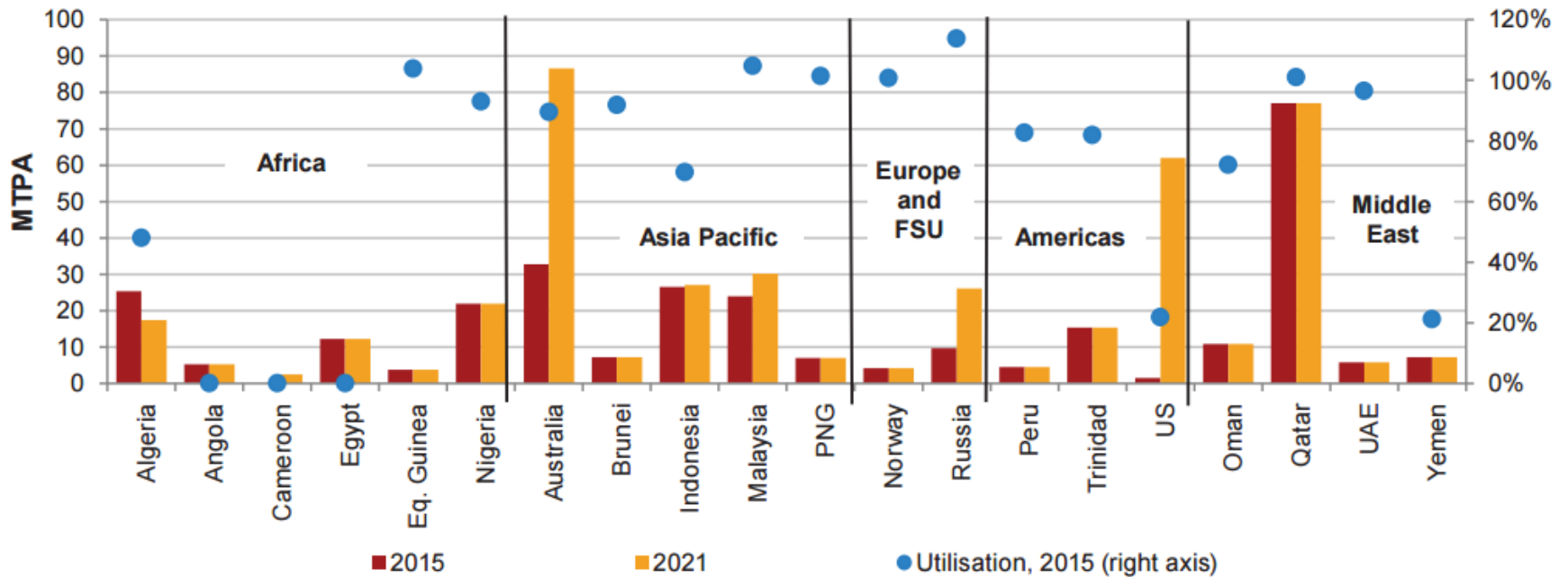
Customers today require more options around purchasing flexibility which can include a mix of long-term contracts and gas from spot markets



The domestic market is adjusting to emerging exposure to international gas prices

Changing market dynamics

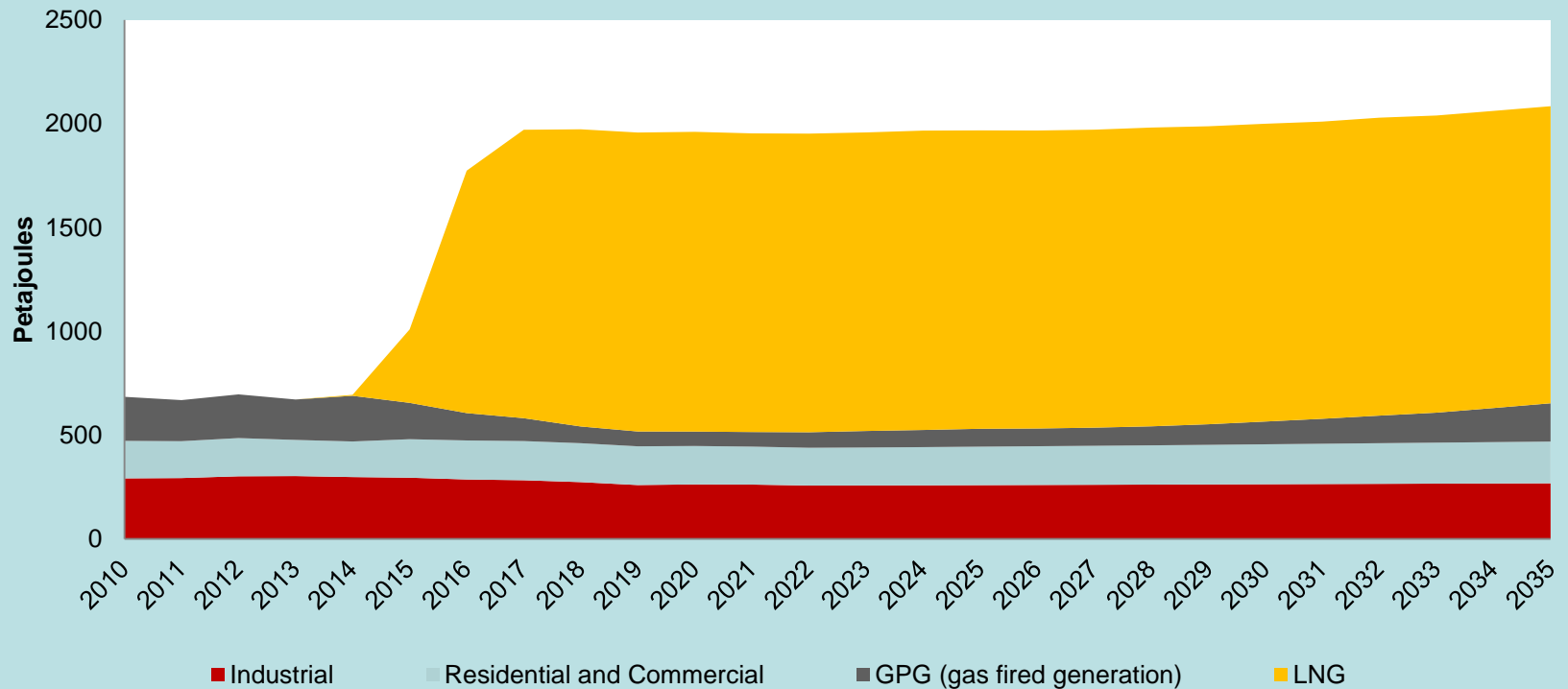
Nominal Liquefaction Capacity by Country in 2015 and 2021



Sources: IHS, Company Announcements

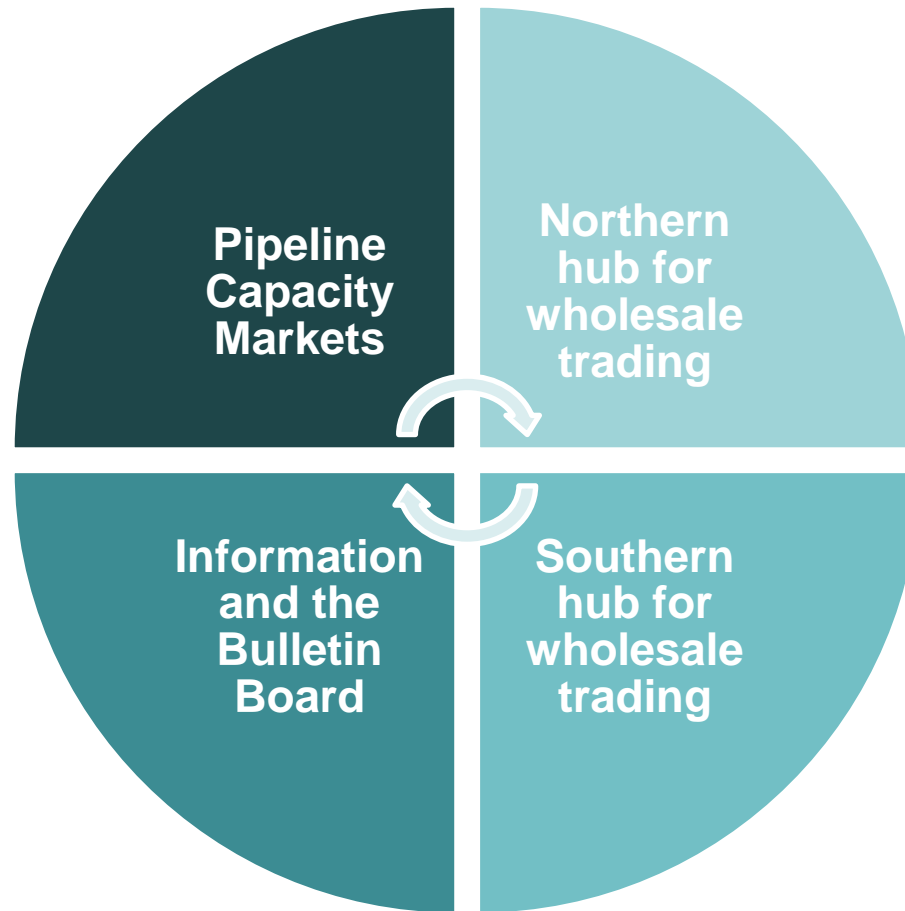
A structural shift in the gas market

FORECAST DEMAND FOR EAST COAST GAS



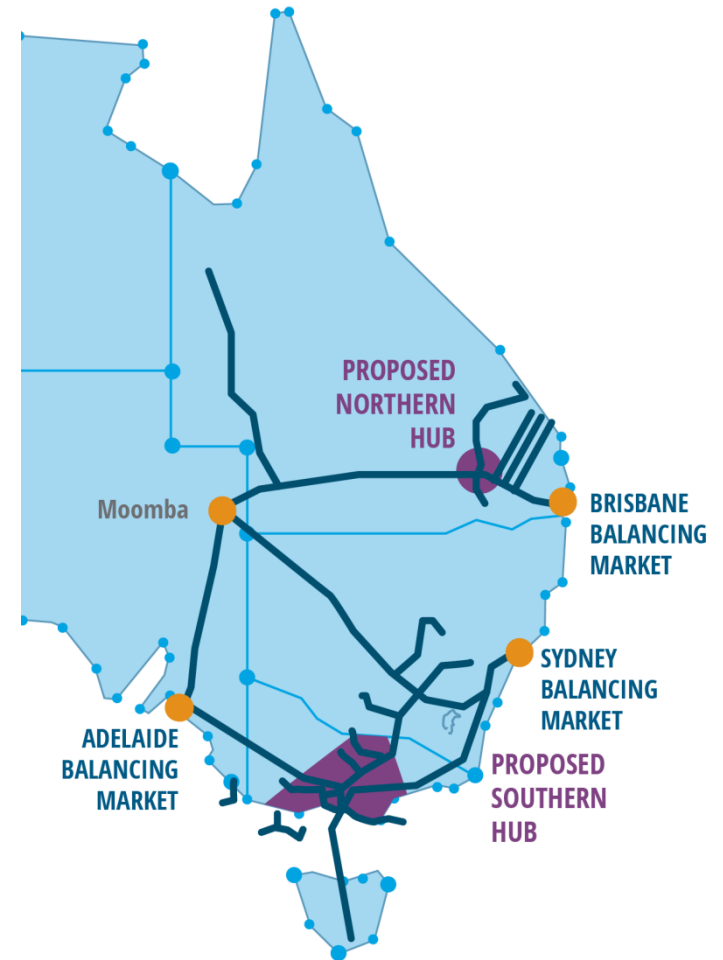
Source: AEMO 2015 Gas Forecasting Report

A balanced package of recommended reforms



Redesigning wholesale markets

- Concentrating wholesale gas trading at two hubs
- Transition to exchange-based trading arrangements in Victoria
- Simplify Adelaide, Sydney and Brisbane short-term trading hubs to become balancing hubs



Improving access to pipeline capacity



Day ahead auction for unused capacity



Improved capacity trading platforms to facilitate short-term gas trading



Development of standard products and information on all trades

Increasing transparency



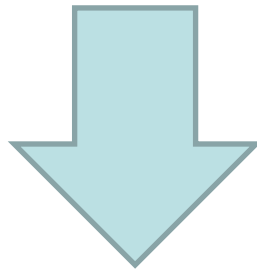
Increased amount and frequency of data reported on the Gas Bulletin Board



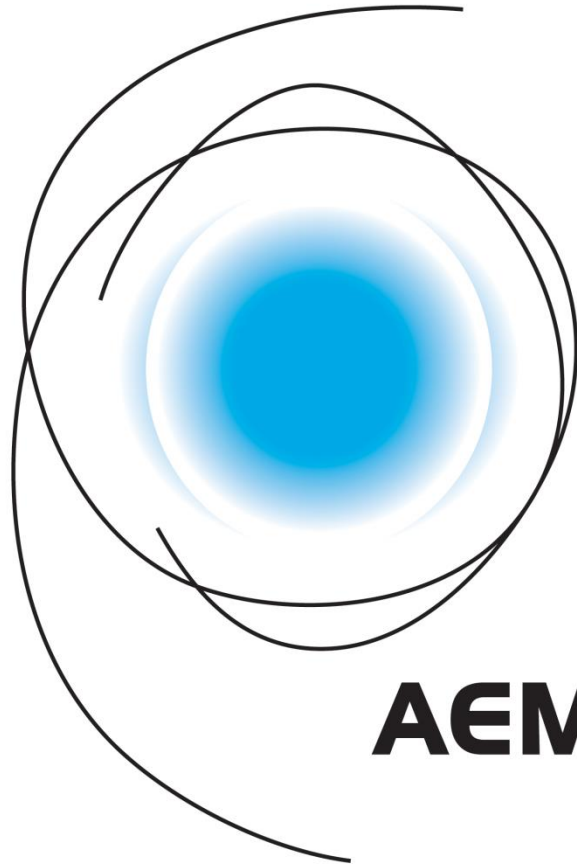
Greater data accuracy requirements and stronger compliance framework

Benefits of reform

Increased access to gas + lower barriers and costs



Implemented in full, the reforms have the potential to increase Australia's GDP by \$8.7 billion in net present value terms by 2040



AEMC