



**Australian Government**  
Department of the Environment and Energy



**COAG  
Energy Council**

## **Measures to Improve Transparency in the Gas Market**

**COAG Consultation Regulation Impact Statement  
Stakeholder Meeting**

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# Agenda

## Introduction & Welcome

- |   |           |           |
|---|-----------|-----------|
| 1. Overview of the transparency RIS                 | DoEE      | 0905-9200 |
| 2. Gas, LNG export and infrastructure prices        | Kath Lowe | 0920-9400 |
| 3. Supply and availability of gas                   | Kath Lowe | 0940-1000 |
| 4. Demand for gas                                   | Kath Lowe | 1000-1015 |
| 5. Infrastructure used to supply gas to end markets | Kath Lowe | 1015-1030 |
| 6. Gas Statement of Opportunities (GSOO)            | Kath Lowe | 1030-1040 |

## Morning Tea

- |                                 |                       |           |
|---------------------------------|-----------------------|-----------|
| 7. Legal/Regulatory Package     | Kath Lowe             | 1100-1120 |
| 8. Regulatory Impact Assessment | Frontier<br>Economics | 1125-1150 |
| 9. Next Steps                   | DoEE                  | 1150-1200 |

## Close

# Transparency Background – *How we got to here?*

- **May 2016** – AEMC recommends two stages of improvements to the Bulletin Board
  - **March 2017** – Then Prime Minister directs ACCC/GMRG to work together to “advise on options to quickly improve transparency in the gas market, to facilitate competition between producers and information for purchasers
  - **September 2018** – AEMC Stage 1 Bulletin Board improvements implemented
  - **December 2018** – ACCC/GMRG publish joint transparency recommendations
  - **December 2018** – COAG Energy Council asks Senior Committee of Officials (SCO) to consult on:
    - the ACCC/GMRG recommendations
    - the AEMC’s Stage 2 Bulletin Board improvements
    - changes to the legal framework required to give effect to the recommendations.
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## Overview - *What process did we use?*

- COAG Regulatory Impact Statements (RIS) considers:
    - Whether there is a problem that warrants government action?
    - If yes, what are the objectives are for action?
    - What options address the problem?
    - Costs and benefits of each option, stakeholder feedback.
-

# Information deficiencies - AEMC & ACCC-GMRG

Gas and  
infrastructure  
prices

- Production cost estimates
- Wholesale gas prices
- LNG netback pricing
- Retail gas prices
- Transmissions prices
- Stand-alone compression prices
- Storage prices
- Export prices

Demand

- LNG export facilities
- Large gas users

Supply

- Reserves and resources
- Contracted reserves
- Drilling
- LNG Imports

Infrastructure

- Availability of capacity
- Users with contracted capacity
- Developments
- Compression facilities
- LNG import facilities

# Objectives

*In keeping with the National Gas Objective and Energy Council Vision...*

- The objectives of this RIS are to:
    - support the efficient operation of the gas market and the efficiency with which gas, infrastructure and other resources are allocated
    - ensure that any transparency measures that are implemented are targeted, fit for purpose and proportionate to the problem they are intended to address.
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# Recommendations - AEMC

- AEMC recommendations to improve the Bulletin Board to:
    - Clarify its purpose
    - Make it a “one-stop-shop” for information on the gas market
    - Expand its coverage to include the NT and require more gas market participants to report key gas supply and demand information.
  
  - ➔ *Stage 1 improvements, which required changes to NGR, came into effect in September 2018.*
  
  - ➔ *Stage 2 improvements, require changes to NGL so are being considered as part of this RIS.*
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# Recommendations - ACCC/GMRG

- ACCC-GMRG recommendations build on from AEMC recommendations by providing for:
    - Greater transparency of reserves and resources and other upstream activities, gas and infrastructure prices, infrastructure availability and developments, LNG exports and imports
    - Expanding the coverage of the GSOO to include the NT
    - More information to be reported on the Bulletin Board and higher penalties for failure to comply with reporting obligations
  
  - ➔ *All recommendations (excluding penalties and pipelines) being considered as part of this RIS.*
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# Policy options - 4 Options to address deficiencies

1. Maintain the status quo.
2. Implement the AEMC's Stage 2 Bulletin Board recommendations and part of the ACCC-GMRG's recommendations.
3. Implement all the AEMC and ACCC-GMRG's recommendations.
4. Option 3, plus additional transparency measures identified when preparing RIS.

➡ *Table 9.1 of the RIS (page 101) lists the options in detail.*

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# Gas, LNG and infrastructure prices

## *Information deficiencies*

- Beyond what is being published through the ACCC's Gas Inquiry, there is limited publicly available information on:
    - Prices agreed under short-term (less than 1 yr) and long-term gas supply agreements (GSAs)
    - The factors influencing the price of gas (i.e. production costs and LNG netback prices)
    - Locational swap prices
    - LNG export prices (and LNG import prices if any import facilities are developed)
    - Standing prices for stand-alone compression and storage and information on the prices actual paid by users of these services
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# Gas, LNG and infrastructure prices

## What is the problem?

- The lack of publicly available information on these prices could adversely affect the efficient operation of the market and allocation of resources by:
    - hindering the price discovery process and the efficient trade of gas and other services
    - limiting the ability of market participants to efficiently respond to changing market conditions and the demand, supply and investment signals embodied in prices
    - limiting the ability of governments to make informed policy decisions
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# Gas, LNG and infrastructure prices

## Options for addressing the problems

### Option 1

No changes

### Option 2

- **AEMO** to report production cost estimates in GSOO
- **AER** to publish LNG netback price series
- **Storage and stand-alone compression facilities** to publish standing prices on own website

# Gas, LNG and infrastructure prices

## Options for addressing the problems

### Option 3

#### Option 2 plus

- **Sellers** of gas under short-term GSAs to report prices to AEMO for publication on aggregated basis on BB
- **AER** to publish forward looking gas price series for producer & retailer GSAs with a term greater than 1 year
- **Storage and stand-alone compression facilities** to publish information on the prices actually paid by users on website
- **LNG exporters** to report export prices to AEMO for publication on BB  
*(info reported 20 business days after end of month in which LNG loaded)*

### Option 4

#### Option 3 plus one or more of the following:

- Historic gas price series for producer & retailer GSAs.
- Producers' actual cost of production
- LNG import prices
- Gas swap prices
- Price offers by producers & retailers
- Prices agreed in secondary trades of storage capacity
- Mandatory listing of gas requests and offers on BB or Gas Supply Hub

# Supply and availability of gas

## *Information deficiencies*

- While some information on the supply and availability of gas can be found in the public domain, information on the following is fragmented, incomplete and reported in an inconsistent manner:
    - Reserves and resources
    - Producers' drilling activities
    - Contracted reserves / production
    - The supply of gas by LNG import facilities (if any are developed)
  
  - Post ACCC Inquiry, there will also be no information on LNG exporters' demand-supply balance.
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# Supply and availability of gas

## *What is the problem?*

- The identified information deficiencies could limit the ability of:
    - market participants to make informed and efficient decisions about gas use, upstream developments, infrastructure investment
    - the market to efficiently respond to changing market conditions caused by changes on the supply side
    - governments to make informed policy decisions
-

# Supply and availability of gas

## Options for addressing the problems

### Option 1

No changes

### Option 2

- **Producers** to report 2P reserves on BB
- **AEMO** to consider whether additional information on reserves and resources to be reported as part of the biennial review of the BB
- **AEMO** to include links to public information on exploration on BB

# Supply and availability of gas

## Options for addressing the problems

### Option 3

- **Producers** to report the following information on the BB using the ACCC's proposed reporting framework:
  - 1P, 2P, 3P reserves and 2C resources by field
  - movements in 2P reserves over last 12 mths
  - gas field information
  - field development status (if materiality threshold met)
- **Producers** to report information on drilling activities and volume of gas contracted under existing GSAs to AEMO for publication in GSOO
- **LNG importers** (if any are developed) to report on BB:
  - volume of gas imported
  - similar operational information to that reported on BB by production & storage facilities

### Option 4

#### Option 3 plus:

- **LNG exporters** to report on short, medium and longer-term demand-supply balance to AEMO for publication in GSOO

# Demand for gas

## *Information deficiencies*

- Some information on the demand for gas by domestic users and LNG exporters can be deduced from BB and other public information, but it is fragmented and incomplete and does not provide a timely or accurate picture of what is happening on the demand side.
  - There is, for example, limited public information on:
    - LNG exporters' actual demand and activities that can affect the market, including shipments
    - large users' actual demand and operating activities that can affect the market
    - large users and LNG exporters' forecast use of gas.
-

# Demand for gas

## *What is the problem?*

- The identified information deficiencies could limit the ability of:
    - market participants to make informed and efficient decisions about gas use, production, infrastructure use and investment decisions
    - the market to efficiently respond to changes in the demand-supply balance and market disruptions caused by LNG exporters or large users
    - governments to make informed policy decisions
  - The limited information on LNG exporters activities could also impede the efficient allocation of gas between domestic and international markets
-

# Demand for gas

## Options for addressing the problems

### Option 1

No changes

### Option 2

- **Large users** to report:
  - the nameplate rating of the connection to the large user's facility (i.e. how much gas can be delivered)
  - material changes in the nameplate rating if they are likely to impact the facility for more than 3 months
  - daily gas consumption data (published on D+1)\*  
[note and exemption is available from reporting this information if the large user has not delivered  $\geq 10\text{TJ/day}$  in last 12 months]
- **LNG exporters** to report:
  - the nameplate rating of both the connection to the LNG export facility and the LNG export facility
  - daily gas consumption data (published on D+1)\*
  - the short-term capacity outlook (incl. material intra-day changes) and medium-term capacity outlook
  - gas in storage if storage forms part of the LNG export facility

*\*Exemption available if shipper the only user at a transmission delivery point.*

# Demand for gas

## Options for addressing the problems

### Option 3

#### Option 2 plus:

- **LNG exporters** to report information on LNG shipments (i.e. departure date, volume, trade and supply dates).

*Information to be reported 20 business days after end of the month in which LNG loaded.*

### Option 4

#### Option 3 plus:

- **Large users and LNG exporters** to report a 12 mth forecast of daily consumption.

# Infrastructure used to supply gas to end markets

## *Information deficiencies*

- While a reasonable amount of information is available on the BB about production, storage, compression, transportation and other facilities:
    - there is limited information on proposed and committed infrastructure developments.
    - there are some inconsistencies in the reporting of:
      - uncontracted capacity (i.e. pipelines report a 36 mth outlook while other facilities report a 12 mth outlook)
      - a list of users with contracted capacity (i.e. pipelines must publish a list of users while other facilities are not required to do so)
  - There is also a gap in the materiality threshold applying to intra-day changes in short term capacity outlook and nominations (currently the greater of 10% of nameplate rating and 30 TJ)
-

# Infrastructure used to supply gas to end markets

## *What is the problem?*

- The identified information deficiencies could act as an impediment to:
    - efficient planning and investment decisions by both market participants and governments across the supply chain
    - the efficient use of and investment in infrastructure
  - The gap in the materiality threshold could also limit the ability of the market to respond efficiently to market disruptions.
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# Infrastructure used to supply gas to end markets

## Options for addressing the problems

### Option 1

### Option 2

No changes

- **Entities developing new facilities** with nameplate rating > 10 TJ to report information on the development on BB if falling within meaning of committed development.
- **Stand-alone compression facilities** to report equivalent information to pipelines on BB.
- **Storage and stand-alone compression facilities** to report 36 month uncontracted capacity outlook

# Infrastructure used to supply gas to end markets

## Options for addressing the problems

### Option 3

#### Option 2 plus:

- **Entities developing new facilities** with nameplate rating > 10 TJ to report information on the development on the BB if failing within meaning of a proposed development
- **Storage and stand-alone compression facilities** to publish list of shippers with contracted capacity
- **Production facilities** to report 36 month uncontracted capacity outlook

### Option 4

#### Option 3 plus:

- Amend the materiality threshold in BB rules to require intra-day changes in the short-term capacity outlook and nominations to be reported if the change:  
*exceeds the lesser of 10% of the nameplate rating and 30TJ.*

# Gas Statement of Opportunities

## *Information deficiencies*

- The objective of the GSOO is make information available that can assist market participants and other persons to make informed investment decisions across the gas industry, but concerns have been raised about:
  - the quality of the information that is currently used for the GSOO, which is collected through a voluntary survey
  - the coverage of the GSOO, which does not currently extend to the NT because provisions in the NGR prevent this from occurring “until a day fixed by or under legislation of that Territory”.

## *What is the problem?*

- The identified quality and coverage issues could act as an impediment to efficient planning, investment and policy decisions across the industry.
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# Gas Statement of Opportunities

Options for addressing the problems

## Option 1

No changes

## Option 2

- Replace voluntary surveys with mandatory surveys.
- *Expand GSOO coverage to include the NT.*

# Morning tea

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Close

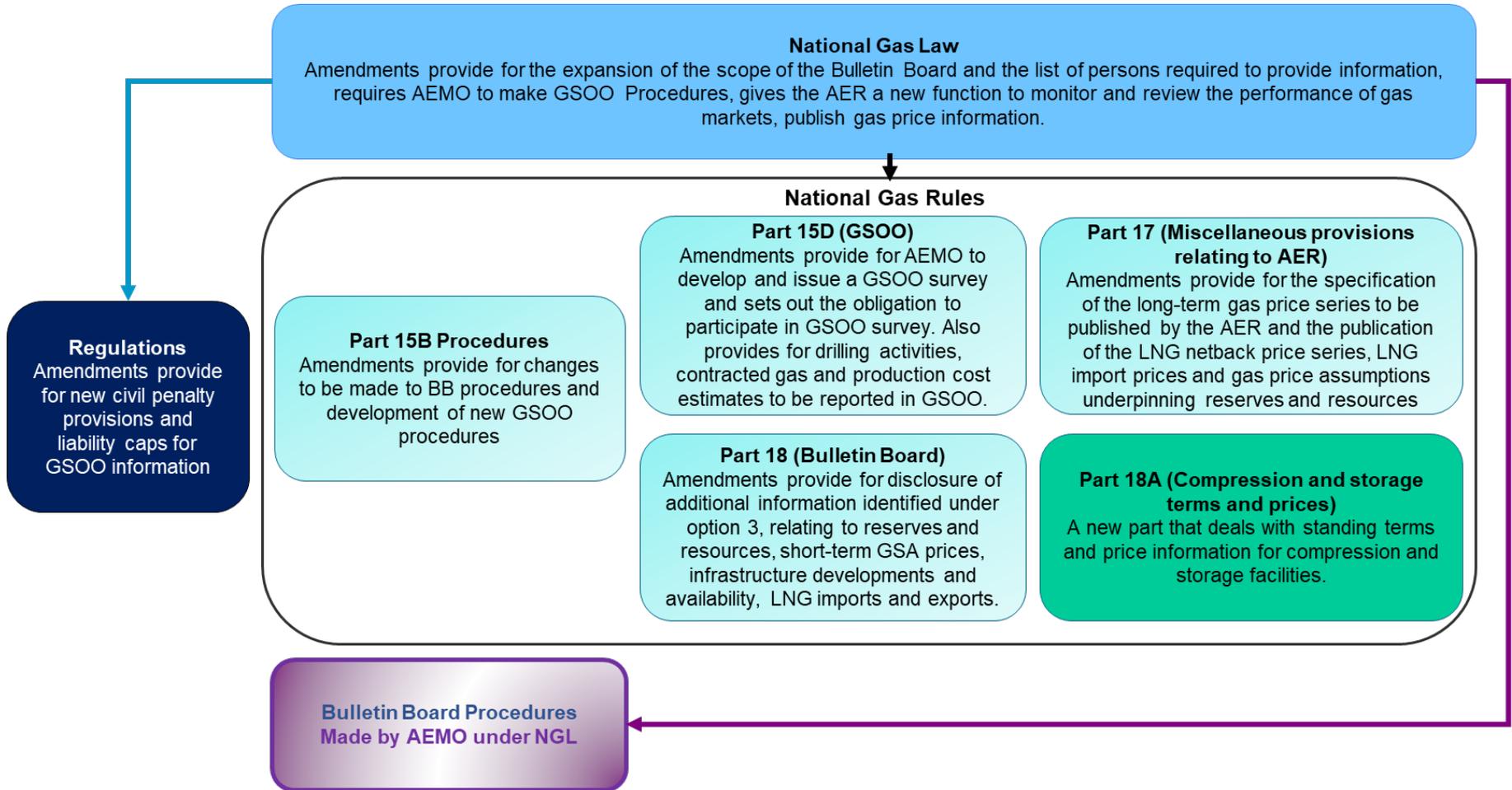
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# Changes to legal framework and implementation

## Draft package

- To provide stakeholders a better understanding of how the transparency measures could be implemented, a draft package of changes to the legal framework has been prepared.
  - The draft package is based on Option 3, which if implemented will require changes to the:
    - National Gas Law (NGL)
    - National Gas Regulations (Regulations)
    - National Gas Rules.
-

# Draft package - Option 3



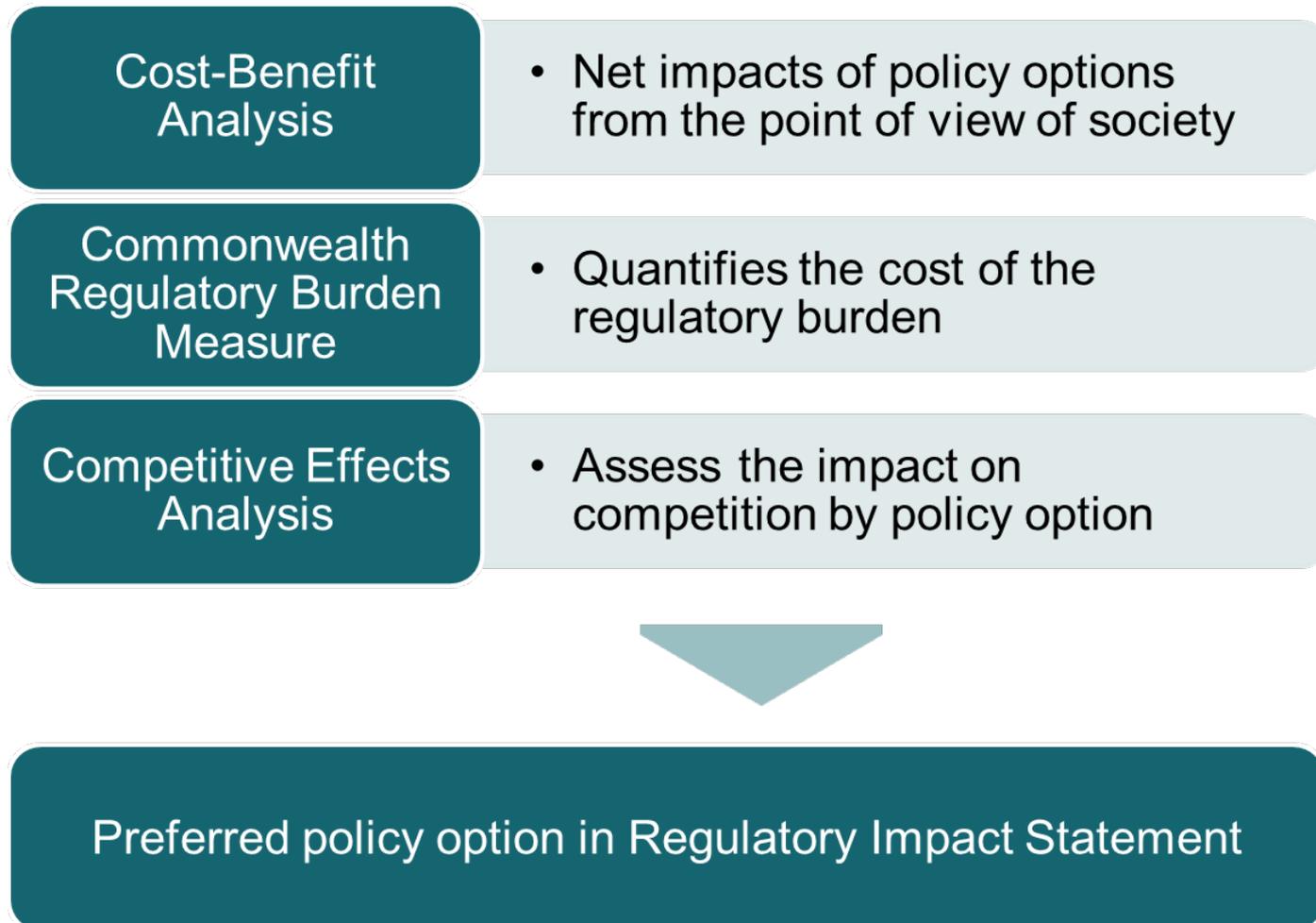
# Implementation of changes to the legal framework

## Implementation

- If the Energy Council agrees to implement any of the policy options, then the required changes to the legal framework will be implemented as a package.
  
  - This will involve:
    - changes to the NGL being progressed through the SA Parliament
    - once changes to the NGL are proclaimed, the required amendments to:
      - the Regulations would be made by the SA Governor; and
      - the NGR would be made by the SA Minister as initial rules.
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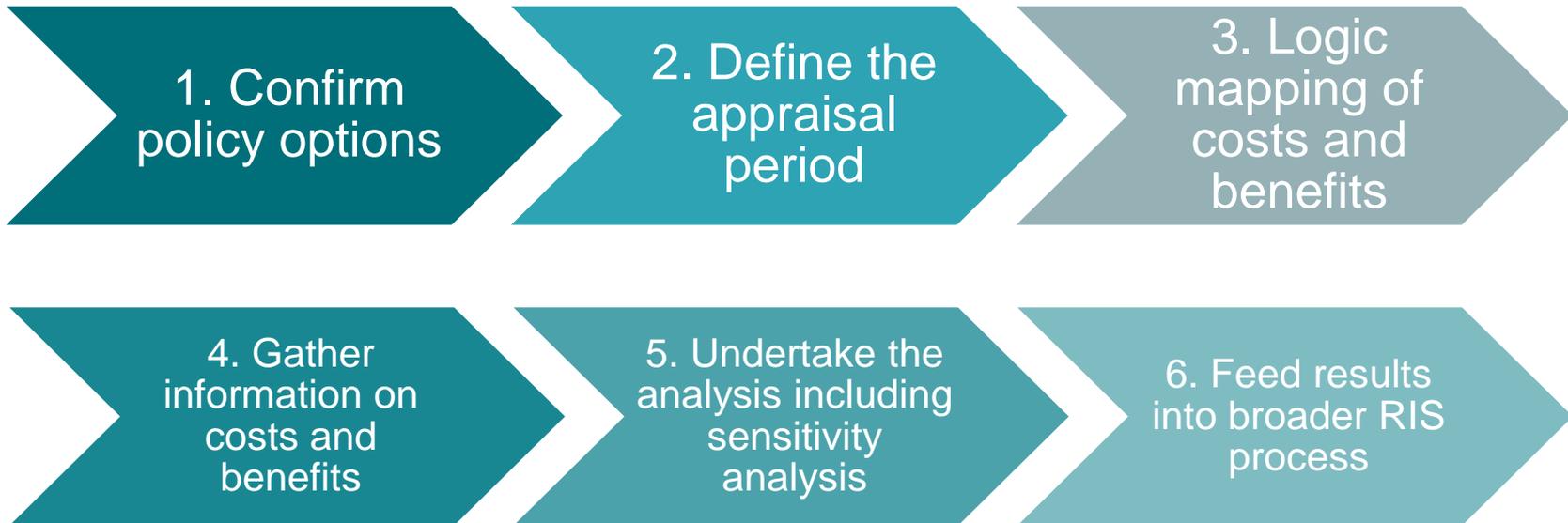
# Regulatory Impact Assessment

## *Overview of analyses*



# Regulatory Impact Assessment

## *Cost-benefit analysis (CBA)*



# Regulatory Impact Assessment



## *Cost-benefit analysis (CBA) - continued*

### Potential costs

- Administrative costs for regulators
- Administrative costs for participants
- Potential for reduced investment or participation as a result of obligations to reveal commercially sensitive information
- Potential for coordinated conduct

### Potential benefits

- More timely and accurate signals to the market
- Lowering search and transaction costs
- Reducing information asymmetry
- Reducing barriers to entry
- Enabling more informed decision making and planning including long term decision making

**Note: We are keen for any data to help quantify these costs and benefits**

# Cost-benefit analysis



*Draft logic chain – example 1*

Information on users with contracted capacity

Stand-alone compression facilities required to provide a list of users with contracted capacity to AEMO for publication on the Bulletin Board

Reduce search costs for those seeking capacity in the secondary market

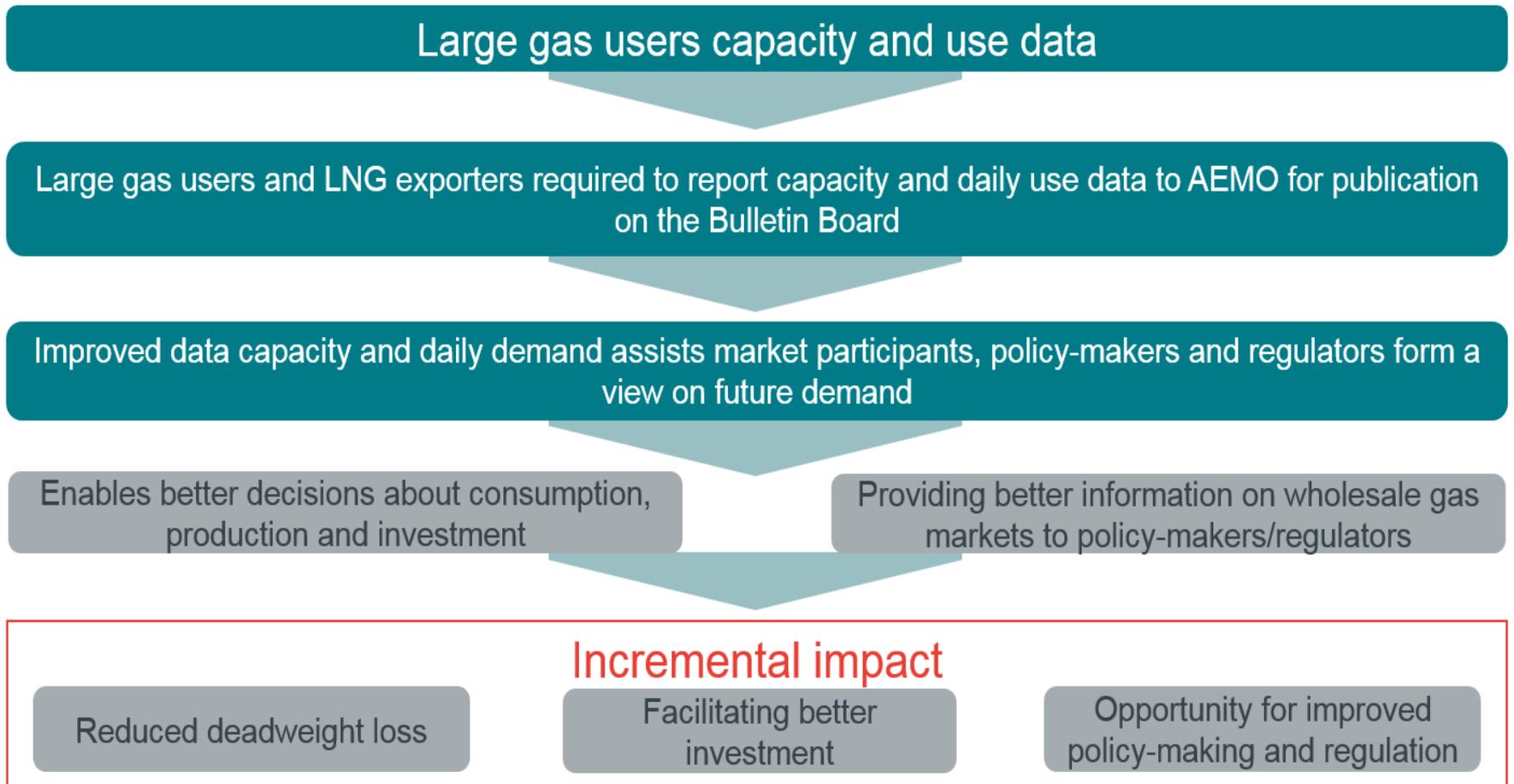
Aiding the price discovery process and the efficient trade and allocation of gas

**Incremental impact**

Reduced deadweight loss

# Cost-benefit analysis

## Draft logic chain – example 2



# Regulatory Impact Assessment



## Commonwealth Regulatory Burden Measure analysis (CRBM)

The CRBM has been developed by the Office of Best Practice Regulation to estimate financial compliance costs associated with a change in regulation

Includes costs incurred by regulators and market participants

Bottom-up analysis which is reliant on the quality of its inputs

**Net present value of regulatory burden**

Note: the results of the CRBM will form part of the cost side of the cost-benefit analysis

# Regulatory Impact Assessment

## *Competition effects analysis*

- Qualitative assessment of the impact on competition by policy option for broad stakeholder groups.

### Stakeholder groups

- Holders of upstream gas reserves
- Production facility operators
- Operators of gas pipelines
- Operators of storage and/or compression facilities
- LNG importers
- LNG exporters
- Retailers and consumers
- Potential market entrants

### Potential impacts to be considered

- Search and transaction costs
- Market liquidity and price spreads
- The relative bargaining power of contracting counterparties
- Potential for collusive behaviour
- Barriers to entry

# Regulatory Impact Assessment



## *Competition effects analysis – continued*

- The Office of Best Practice Regulation’s competition and regulation guidance note includes the following four ways in which regulation can restrict businesses from competing:

Limit the number or types of businesses

Limit the ability of businesses to compete

Reduce the incentive for businesses to compete

Limit the choices and information available to consumers

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# Regulatory Impact Assessment

## *Risk analysis*

- A preliminary internal risk analysis has been conducted which covers both the risks of maintaining the status quo, and the risks of implementing each policy option described in Chapters 4-8 of the RIS paper.
  - The impact of information deficiencies on different gas market segments were analysed with the following key risks identified:
    - Higher compliance costs
    - Duplication of reporting
    - Competition concerns
    - Confidentiality concerns
    - Ambiguity in the calculation of production cost estimates
    - Coordinated conduct
    - Incomplete GSOO coverage
-

# Regulatory Impact Assessment

## What's next?



- Analyses will be brought together to assess policy options.
  - Key output will be a preferred policy option to feed into the decision RIS – Frontier Economics will work with the Department on the identification of a preferred option.
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## Next steps – *what happens next?*

- We are seeking your feedback on:
    - The information deficiencies identified in the RIS
    - Policy options presented in the RIS
    - The costs and benefits associated with each option
    - The draft amendments to the legal framework that would be required to implement all of the AEMC and ACCC-GMRG's recommendations.
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## Next steps – *what happens next?*

- Specific questions are set out in each chapter of the RIS.
  - Submissions close at 5pm AEST on **12 September 2019**.
  - Submissions are welcome by email ([gas@environment.gov.au](mailto:gas@environment.gov.au)) or in hard copy.
  - We encourage you to use the response template has been prepared in **Attachment B** so that we can properly account for the feedback provided.
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## Next steps— *what happens next?*

Date	Process
Q4 2019 – Q1 2020	Decision RIS prepared. Incorporates Regulatory Impact Assessment & Stakeholder feedback, selects the option that yields the greatest net benefit for the community. Include plans for implementation, monitoring and review process. Revisions of legal amendments prepared.
End Q1 2020	COAG Energy Council considers the Decision RIS and any proposed amendments to the NGL, NGR and Regulations.
Q2-Q4 2020	If required, amendments to the NGL progressed through SA Parliament and once NGL changes proclaimed, the initial Rules and Regulations will be made.
End Q4 2020	New transparency measures come into effect.

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## Measures to Improve Transparency in the Gas Markets

*Thank you for participating  
submissions close 12 September 2019*

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