



## Meeting Agenda

<b>Meeting Title:</b>	Gas Advisory Board – Extraordinary Meeting
<b>Meeting Number:</b>	2021_10_28
<b>Date:</b>	Thursday 28 October 2021
<b>Time:</b>	1:00 PM to 3:00 PM
<b>Location:</b>	<p>Level 1, 66 St. Georges Terrace (GAB members, statutory observers and presenters only)</p> <p>Observers who would like to attend the meeting are to seek approval from the Chair by noon on Tuesday 26 October 2021 by email to <a href="mailto:energymarkets@energy.wa.gov.au">energymarkets@energy.wa.gov.au</a>.</p> <p>Approved observers will be sent an invitation to attend the meeting online by COB on Wednesday 27 October 2021.</p>

Item	Item	Responsibility	Type	Duration
1	Welcome	Chair	Noting	3 min
2	Meeting Apologies/Attendance	Chair	Noting	2 min
3	Consultation Process on the Need for a WA Gas Trading Mechanism	Chair	Discussion	110 min
4	General Business	Chair	Discussion	5 min
	Next Meeting: 24 March 2022			

Please note this meeting will be recorded.



## Agenda Item 3: Consultation Process on the Need for a Gas Trading Mechanism

Gas Advisory Board (**GAB**) Meeting 2021\_10\_28

Several Gas Market Participants have approached Energy Policy WA in recent months expressing the view that the gas market in WA may not be operating efficiently and may benefit from development and implementation of a gas trading mechanism.

As a result, AEMO gave a presentation at the GAB meeting on 23 September 2021 providing an overview of the Wallumbilla and Moomba Gas Supply Hub.

Following this presentation, the GAB agreed to hold a workshop at a special meeting of the GAB (this meeting) to scope a paper/survey to seek market participant feedback on the need for, and the issues and benefits associated with, developing a WA gas trading mechanism.

### Background

The paper for Agenda Item 6(c) for the 23 September 2021 GAB meeting asked the GAB to consider whether there is sufficient interest from gas market participants to commence discussions on the need for a WA gas trading mechanism, and if so, whether a GAB working group should be formed for the consultation. The paper also listed some questions that could be asked as part of any consultation.

The GAB agreed to not form a working group, and instead to hold a special meeting of the GAB to scope a paper/survey to seek market participant feedback on the need for, and the issues and benefits associated with, developing a WA gas trading mechanism.

The GAB agreed that the questions that were suggested in the paper for Agenda Item 6(c) for the 23 September 2021 GAB meeting are a reasonable starting point for discussion. These questions included:

- (1) Is there interest in establishing a gas trading mechanism under WA legislation, regulations, and rules, or as a voluntary arrangement outside of the legislation.
- (2) If there is sufficient interest:
  - (a) what are the objectives and the needs to be met by a new gas trading mechanism;
  - (b) why are the existing gas trading mechanisms not sufficient to meet these needs, and could they be modified to meet these needs;
  - (c) what are the high level costs and benefits of establishing a new gas trading mechanism; and
  - (d) if there is a net benefit to establishing a new gas trading mechanism, what is the most efficient option for its establishment (something like the Wallumbilla and Moomba Gas Supply Hub or something else) and who would operate it.

## Previous Consultation on a WA Gas Trading Mechanism

The issue of whether there is a need to develop a WA gas trading mechanism was last raised for discussion at the GAB on 27 September 2018, where it was agreed that the Rule Change Panel Support team (**RCP Support**) would investigate whether the GAB can form a working group to scope out a WA gas trading mechanism. RCP Support subsequently received legal advice that working on a gas trading mechanism would be beyond the scope of the GAB, and this was communicated to the GAB by email on 25 October 2018.<sup>1</sup>

As a result, the Public Utilities Office (now Energy Policy WA) took up the issue, held a stakeholder workshop on 5 December 2018 and developed a consultation paper.

The consultation paper sought stakeholder feedback on the potential for a voluntary centrally-organised gas trading mechanism, to be administered by AEMO or some other entity. The consultation paper asked nine questions for response from stakeholders. A copy of this consultation paper is attached (**Attachment 1**).

At the request of the Public Utilities Office, the Australian Petroleum Production and Exploration Association (**APPEA**) distributed the consultation paper to its WA-based members on 6 June 2019, seeking responses by 28 June 2019.

APPEA received only two responses to the consultation paper, and the Public Utilities Office decided that this was an insufficient response to warrant continued work on the matter.

## Potential List of Questions

To aid GAB discussions, the GAB Secretariat has compiled the following list of potential questions that could be asked of stakeholders, based on the questions from the paper for Agenda Item 6(c) for the 23 September 2021 GAB meeting and the questions in Attachment 1.

### Potential for a gas trading mechanism

- (1) Is there a need for a centrally organised gas trading mechanism in the WA domestic gas market?
- (2) If there is a need for a centrally organised gas trading mechanism, should it be voluntary or mandatory?
- (3) What are the high level costs and benefits for establishing a new gas trading mechanism?
- (4) If there is a need for a new gas trading mechanism:
  - (a) What are the objectives that need to be met by the mechanism?
  - (b) Why are the existing commercial gas trading mechanisms not able to meet these objectives and can they be modified to do so?
  - (c) Should the mechanism cover just the gas commodity or both gas commodity and pipeline capacity?
  - (d) How should the mechanism be established?
- (5) If there is no need for a new gas trading mechanism:

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<sup>1</sup> The changes that were made to the energy market governance arrangements on 1 July 2021 via Part 4 of the *Energy Regulations Amendment Regulations 2021* and the *Gas Services Information (Governance) Rules 2021* give the GAB broader latitude to consider evolution of the gas market, so the GAB can now consider whether there is a need for a WA gas trading mechanism. However, there is currently no heads of power in the relevant WA legislation to establish a gas trading mechanism.

- (a) Why is such a gas trading mechanism not required?
- (b) Are there any detrimental impacts of establishing a new trading mechanism and if so, what are they?

### **Timing for the development of a gas trading mechanism**

- (6) When is a gas trading mechanism needed (e.g. immediately, or at some time in the future)?
- (7) What has changed since the matter was last reviewed by the Public Utilities Office in 2018/19?
- (8) Are there any external indicators that would show when a gas trading mechanism is needed (e.g. when a threshold is met by a particular measure in the gas market)?

### **Design of a gas trading mechanism**

- (9) What are the essential design elements of such a gas trading mechanism (e.g. how might counterparty risk be managed)?
- (10) What design elements could impede the operation and success of the mechanism?

### **Funding the gas trading mechanism**

- (11) How should a new gas trading mechanism be funded?
- (12) How should costs for the mechanism be allocated?

### **Development and Operation**

- (13) Who should develop and operate the gas trading mechanism?
- (14) Could the Wallumbilla and Moomba Gas Supply Hub form the basis for the mechanism?

### **Regulation**

- (15) What is the appropriate level of regulation for such a gas trading mechanism?
- (16) Who should monitor and/or regulate the operation of the mechanism?
- (17) What compliance and enforcement mechanisms should be in place?

## **Recommendation**

The GAB is requested to discuss:

- (1) Are the above questions suitable to be asked of stakeholders?
- (2) How should the consultation process be managed:
  - (a) who should be consulted;
  - (b) when should this consultation take place; and
  - (c) how should the consultation be conducted (e.g. a survey, a consultation paper, etc.)?

## **Attachments**

- (1) Industry consultation papers – Potential for a gas spot trading platform for the WA domestic gas market (June 2019).

## Industry consultation paper

# Potential for a gas spot trading platform for the WA domestic gas market

June 2019

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## PURPOSE OF THIS PAPER

The paper has been developed following recent industry stakeholder discussion through the Gas Advisory Board (GAB), regarding the potential for a voluntary centrally-administered gas spot<sup>1</sup> trading platform to assist ongoing development of the domestic gas market in the State. Market participants have noted that two commercial short-term gas trading platforms are already available.

It is also noted that the question of an additional wholesale gas and capacity trading hub or platform was extensively discussed and investigated by the former Independent Market Operator for consideration by the then GAB up to, and including, initial economic modelling and market design (over the period October 2013 to October 2014)<sup>2</sup>, as a possible extension of the *Gas Services Information* arrangements. While no action was taken at the end of that period, the (then) GAB noted that new trading arrangements would be developed in the future when they were required.

This paper seeks wider industry feedback on the need for, and merits of, developing such a voluntary centrally-administered gas spot trading platform in Western Australia, to be operated by the Australian Energy Market Operator (AEMO) if appropriate, or some other entity.

As the scope of such an investigation is outside the remit of both the GAB and Rule Change Panel under existing regulatory arrangements, the Public Utilities Office (PUO) has agreed to undertake this initial investigatory work on behalf of the GAB in consultation with industry, and to keep the GAB and broader gas industry advised of the outcomes.

The paper provides a very high-level overview of the gas market, and opportunities for stakeholder input to enable a shared understanding of industry views on the current operation of the market, any service gaps, and potential benefits or cost effects from the establishment of a centrally administered, voluntary gas spot trading platform.

Following consideration of industry feedback, any decisions by government regarding further detailed investigation or scoping of regulatory changes to facilitate establishment of such a platform would be progressed in consultation with stakeholders.

Stakeholders are requested to provide their feedback to [PUOSubmissions@treasury.wa.gov.au](mailto:PUOSubmissions@treasury.wa.gov.au) OR [ksharma@appea.com.au](mailto:ksharma@appea.com.au) by **28 June 2019**.

## BACKGROUND

Natural gas is very important for the Western Australian economy, with uses including:

- Mineral processing (32 per cent of domestic gas supplies);
- Electricity generation (28 per cent);
- Mining (23 per cent); and

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<sup>1</sup> A commodities trading market typically for cash payment at current price and almost immediate (two to seven business days) delivery.

<sup>2</sup> Economic Regulation Authority, *Gas Advisory Board meetings* [Online](#)

- Industrial processes (11 per cent).

A small amount is also used by residential and small commercial customers for heating and cooking purposes (about 3 per cent), with other uses making up the remainder.<sup>3</sup>

In 2018, Western Australia produced 2,631PJ of natural gas.<sup>4</sup> About 86 per cent of this production was exported, primarily to Asian countries including Japan, China and South Korea.<sup>5</sup>

This paper only considers trading of gas in the domestic market.<sup>6</sup> The secure supply of gas to the domestic market is due in part to the State Government's Domestic Gas Policy. The policy aims ensure the State's long-term energy needs are able to be met by requiring gas equivalent to 15 per cent of exported volumes to be reserved and made available to Western Australian consumers at domestic-market-only prices.<sup>7</sup>

Most of the gas used in Western Australia is sold through confidential long-term bilateral contracts between a limited number of large gas producers, large gas users and gas retailers. There is presently only a small volume of short-term and spot gas sales.<sup>8</sup>

In contrast, the east coast gas market is less concentrated and has active short-term and spot trading hubs that provide market participants with greater price transparency and trading flexibility.<sup>9</sup>

There are two existing commercial short-term gas markets in Western Australia:

- **GasTrading:** In July 2009, Gas Trading Australia (GTA) established a gas "spot" market called 'gasTrading'. According to GTA, the market has grown considerably, and almost every shipper on the major pipelines in Western Australia has contracted through the gasTrading "spot" market. Historical prices and traded volumes are published on its website.<sup>10</sup>

GasTrading appears to be a short term (month ahead), rather than spot, market. In the middle of the month, sellers provide gasTrading with an estimate of the gas volumes they will make available in the following month. GasTrading aggregates these volumes and sends an invitation to purchase to interested parties, who can respond with an offer. GasTrading then stacks the offers according to price and prepares an allocation across buyers and sellers.<sup>11</sup> GasTrading also offers separate gas transport (i.e. pipeline capacity) services.

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<sup>3</sup> Acil Allen Consulting, *DomGas in WA: Final Report (November 2018)* [Online](#)

<sup>4</sup> Department of Mines, Industry Regulation and Safety, Major Commodities 2018 resources file, [Online](#)

<sup>5</sup> Department of Jobs, Tourism, Science and Innovation, *Western Australian LNG profile – February 2019*, [Online](#)

<sup>6</sup> Defined for the purposes of this paper, as for the domestic gas reservation policy, as the Western Australian market.

<sup>7</sup> Department of Jobs, Tourism, Science and Innovation, *WA Domestic Gas Policy*, [Online](#)

<sup>8</sup> Australian Energy Market Operator, *Western Australia Gas Statement of Opportunities*, [Online](#)

<sup>9</sup> Australian Energy Market Operator, *Western Australia Gas Statement of Opportunities*, [Online](#)

<sup>10</sup> Gas Trading Australia, *Historical Prices and Volume*, [Online](#)

<sup>11</sup> Gas Trading Australia, *How it Works*, [Online](#)



- **Energy Access Services:** Energy Access Services launched an alternative platform in 2010. Membership is open to all buyers and sellers of gas in Western Australia along any major gas transmission line. It has two membership tiers; trading and associate. Associate members have access to the monthly overview of buy and sell bids, but are not able to trade.<sup>12</sup> The Energy Access platform appears to provide more flexible service timing options than the GasTrading service, in that Energy Access trading members are able to enter into short term (up to 7 days) and medium term (up to 90 days) trades, on a daily basis.<sup>13</sup>

### *Opportunity for a new gas spot trading platform*

Industry discussion through the GAB has suggested there may be opportunities for other services to be provided in relation to spot gas trading in Western Australia, and that there may be merit in establishing a new independent voluntary gas spot trading platform.

Industry representatives also noted this work ought to be undertaken when the market is 'quiet', rather than as a reaction to the market not operating 'smoothly', as has been the case with recent changes to the east coast gas market.<sup>14</sup>

GAB members supported the need for investigatory work into the potential need to develop an alternative gas spot trading platform in Western Australia, even though such investigatory work is outside its own remit. For this reason the PUO is coordinating this initial investigative work, with the assistance of the Australian Petroleum Production and Exploration Association (APPEA), representing producers, and the DomGas Alliance, representing industrial users and infrastructure investors.

### *Exploratory questions*

The questions for industry (overleaf) are to assist this investigatory work, including whether there is merit in establishing such a voluntary gas spot trading platform, and if so, what are the policy considerations to be made should such a platform be designed.

In responding to these questions, please provide your rationale, to assist all interested parties in developing a clear understanding of current industry views, and to allow informed decision-making.

If other matters related to a potential voluntary gas spot trading platform are not covered by these questions and require attention, we would welcome additional comment.

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<sup>12</sup> Energy Access Services, *Who Are We?*, [Online](#)

<sup>13</sup> Energy Access Services, *How it Works*, [Online](#)

<sup>14</sup> Gas Advisory Board, *Minutes – Meeting 27 September 2018*, [Online](#)

## QUESTIONS FOR INDUSTRY

### Potential for a gas spot trading platform

1. Is there potential for another voluntary gas spot trading platform in the Western Australian domestic gas market? Is this required for the trading of both gas commodity and pipeline capacity?
  - a. If yes, what problem will it solve and/or benefits will it provide? Why are the existing commercial gas trading platforms not able to provide these services or benefits?
  - b. If no, why is a gas trading platform not required? What would be the detrimental effects of establishing a new gas spot trading platform?

Please also address the questions below in the case there is considered to be merit in the establishment of a gas spot trading platform.

### Timing to develop a gas spot trading platform

2. When is a gas trading platform needed (for example, immediately, or at some time in the future)? What has changed since the matter was last reviewed by the GAB in 2014?
3. Are there any external trigger events or circumstantial indicators that would show when such a gas trading platform is needed (for example, when the economy or industrial sector reaches a certain size, or there is a threshold level of a particular measure in the gas market)?

### Design of a gas spot trading platform

4. What do you consider are the essential design elements of such a gas spot trading platform (for example, how might counterparty risk be reduced)?
5. What design elements would impede its success?

### Funding a voluntary gas spot trading platform

6. How should such a voluntary gas trading platform be funded? How should costs be allocated?
7. Should the funding arrangements change over time (for example, should there be transitional funding arrangements for establishment)?

### Operation

8. Are stakeholders supportive of the AEMO operating such a gas trading platform, as is the case on the east coast? If not, what other entity (or entities) might be more suitable, and why?

### Regulation

9. What is the appropriate level of regulation of such a gas trading platform? Who should be the regulator? What compliance and enforcement mechanisms should be included?