

## Second Reading

**The Hon. PENNY SHARPE** (Parliamentary Secretary) [4.04 p.m.], on behalf of the Hon. John Robertson: I move:

That this bill be now read a second time.

I seek leave to have my second reading speech incorporated in *Hansard*.

### Leave granted.

The purpose of the National Gas (New South Wales) Amendment (Short Term Trading Market) Bill 2010 is to establish a short-term trading market [STTM] for wholesale gas in New South Wales. The purpose of the bill is to amend the National Gas (New South Wales) Act 2008 to apply national laws, which establish the short-term trading market in New South Wales. The short-term trading market is an important step forward in the development of the gas supply industry in New South Wales. Before turning to the details of the short-term trading market itself, I remind members of the importance of natural gas and gas market reform to New South Wales. New South Wales is unique among the mainland States of Australia as it imports the majority of its gas supplies from other States.

Gas supplies for New South Wales are sourced from the Cooper Basin in South Australia and from gas fields in Victoria, such as Bass Strait. Small amounts of coal seam methane are sourced from reserves located around Sydney. Despite its reliance on gas imported from outside its borders, New South Wales has strong potential for the discovery of significant gas resources in the future and several areas of New South Wales are under active gas exploration. Long distance gas transmission pipelines bring the gas from the production plants located on or near the gas fields into New South Wales and transport it around the State to Sydney and other regional centres. Local gas distribution networks then deliver the gas to individual gas users in those areas.

Gas is an important energy resource for New South Wales. It fuels domestic and industrial needs and is playing an increasingly significant role as a fuel source for electricity generation. Gas is an efficient, clean-burning energy source, and has significant environmental benefits as a fuel for electricity generation given its lower emissions intensity than coal. Over the past 18 months alone, the proportion of gas-fired capacity as a percentage of total installed generating capacity in New South Wales has increased from approximately 1 per cent to approximately 15 per cent. When used for electricity generation, gas produces approximately half the greenhouse emissions produced from burning coal. Against this background, the short-term trading market is a very important step towards the emergence of a national gas market.

There is already a relatively interconnected network servicing the eastern and southern Australian States and Territories such that in most of these States wholesale gas consumers are able to contract for gas from a number of potential suppliers. The establishment of the short-term trading market at distinct hubs in the national gas transmission system at Sydney and Adelaide will complement the competitive wholesale gas market that has operated in Victoria for some years. This will mean that all of the major centres of demand for natural gas serviced by the interconnected gas pipeline system will operate as open and transparent wholesale markets. In time, and as other jurisdictions establish short-term trading market hubs for their wholesale gas supplies, the foundations for a national gas market for the supply of gas to domestic gas users will have been achieved.

The short-term trading market is part of the national energy market reform program, which the Ministerial Council on Energy has been implementing under the auspices of the Council of Australian Governments. In 2004 the Ministerial Council on Energy identified a need for gas market reforms to accelerate the development of a reliable, competitive and secure natural gas market and to further increase the penetration of natural gas. The aim of the reforms was to encourage transparency, new market entrants, investment in gas infrastructure such as pipelines and storage facilities, and to provide a market mechanism to assist in managing supply and demand interruptions.

The Ministerial Council on Energy subsequently established the Gas Market Leaders Group as a key industry reform forum to develop a gas market development plan consistent with Ministerial Council on Energy gas market reform principles. The Gas Market Leaders Group was established with an independent chair and broad representation from all sectors of the natural gas market including producers, transmission and distribution network owners, retailers, market operators and gas users. In 2006 the Ministerial Council on Energy endorsed the Gas Market Leaders Group's gas market development plan, which included a commitment to introduce a short-term trading market.

Similar to the national electricity market, the short-term trading market will create a market for the trading of natural gas at the wholesale level and set an observable spot price for gas. The spot price would apply at distinct hubs in the gas pipeline system. An objective of the short-term trading market is to facilitate the short-term wholesale trading of gas between pipelines, participants and production centres. This opening up of the wholesale gas market will provide improved access to the wholesale gas market for those participants who have previously faced difficulties purchasing gas, such as those retailers who are smaller in size or new entrants. With this expected increase in participation, and ultimately competition, more cost-reflective and efficient gas prices should emerge.

The short-term trading market will not replace bilaterally negotiated long-term contracts, which will continue to form the basis of gas markets and have underpinned development of the gas transmission pipeline system in New South Wales. Rather, it integrates long-term contracts with more transparent pricing and information provision through a flexible, responsive trading arrangement that provides opportunities to both new and established participants. It will allow market participants to undertake short-term trades to better match short-term variations in supply and demand. Consumers, while not directly participating in the short-term trading market, are expected to benefit from market

implementation through improvements to security of supply as well as more efficient gas pricing. The short-term trading market will be operated by the Australian Energy Market Operator [AEMO] on a nationally consistent basis regardless of the location of each hub.

The Gas Market Leaders Group established the short-term trading market working group, which was open to all gas industry stakeholders, to develop the short-term trading market design. The working group reported to the Gas Market Leaders Group through the short-term trading market steering committee. This governance arrangement ensured comprehensive industry and stakeholder representation and input throughout the development of the short-term trading market design. The short-term trading market is a market-based wholesale natural gas trading system to be operated by the Australian Energy Market Operator at defined gas hubs initially in Sydney and Adelaide.

The Sydney gas hub will be based on the Wollongong, Newcastle and Greater Sydney metropolitan area natural gas distribution networks, including the Blue Mountains, Central Coast and Hunter Valley regions. The short-term trading market will facilitate the daily trading of gas between market participants and production centres and will set daily wholesale prices for natural gas at each hub. The existing retail gas markets in South Australia and New South Wales will also continue to operate unchanged in conjunction with the short-term trading market wholesale gas market. There will be penalties for things such as suppliers who deliver less gas to market than they agreed to deliver. To ensure that the daily physical demand and supply on each pipeline remains balanced, the Australian Energy Market Operator will operate a market operator service which will inject gas into the system if there is a supply shortfall or take gas from the system if there is an oversupply or demand shortfall.

In New South Wales gas is currently traded through contractual arrangements between gas producers, wholesalers and retailers. Any imbalances in gas supplies, that is gas shortfalls or excess gas, are addressed through various balancing mechanisms contained in the various contracts and the retail market arrangements. These mechanisms inform gas shippers of the amount of gas they are required to inject into the gas system to maintain the security of supply. However, there is limited information provided on gas prices and quantities to allow gas users to respond to gas prices and undertake demand management. The short-term trading market will provide greater transparency and information on gas flows within the system as well as price incentives to better manage those flows in the gas network.

As noted, the principles to guide the gas market development process were initially established by the Ministerial Council on Energy in December 2004. These principles were later augmented by the Gas Market Leaders Group as work on the short-term trading market progressed. These principles were the main form of guidance used during the development of the market design. The process of developing the short-term trading market and its fundamental design has involved rigorous analysis and investigation of a range of issues. During consultation, a number of gas industry participants raised concerns with the market design. These concerns focused largely on technical design issues around market power, arrangements for the provision of balancing gas and the dissemination of gas quality information. Where applicable, these concerns have been addressed by modifying the short-term trading market framework.

The Australian Energy Market Operator is undertaking a final study to assess the final market design and identify any mitigation or ongoing market monitoring measures that may be required after the commencement of the short-term trading market. In addition, the Australian Energy Market Operator and jurisdictional governments will be monitoring the short-term trading market post implementation to ensure that the market design is best suited to deliver the intended objectives and outcomes of the short-term trading market.

As mentioned, the purpose of the bill is to amend the National Gas (New South Wales) Act 2008 to apply national laws, which establish the short-term trading market in New South Wales. This means that, once the bill is proclaimed, the short-term trading market will become the wholesale gas market in New South Wales for trading gas in the Sydney hub, which includes Sydney, Wollongong and Newcastle; the Australian Energy Market Operator will operate the short-term trading market; all retailers and shippers will be required to trade gas through the short-term trading market; and gas industry participants, including those not trading gas through the short-term trading market, can be required to provide information to the Australian Energy Market Operator to assist with the operation of the short-term trading market and provide appropriate information to the market.

Significant preparations within the New South Wales and South Australian gas supply industries are currently underway with a focus for commencing operation of the short-term trading market in mid 2010. The Australian Energy Market Operator is coordinating these preparations which include an extensive industry training program, auditing of participant readiness, and a three-month market trial commencing in March 2010 for all participants to test both their own and the market systems of the Australian Energy Market Operator.

Prior to the commencement of the short-term trading market, the Australian Energy Market Operator is undertaking two separate market studies to ensure the short-term trading market is ready to commence as scheduled and that appropriate monitoring can take place once the short-term trading market commences. As already mentioned, the first of these studies is a three-month extensive market operations trial. This will ensure that the Australian Energy Market Operator and market participants' systems and interfaces are working properly to ensure a seamless transition to the short-term trading market.

The Australian Energy Market Operator is also undertaking a final analysis of the market design. If this analysis identifies any issues the New South Wales Government will work closely with the Australian Energy Market Operator to ensure that they are appropriately addressed. The short-term trading market is an important milestone in the development of a reliable, competitive and secure natural gas market in New South Wales. I commend the bill to the House.