

25 August 2023

Committee Secretary  
Economics Legislation Committee  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600



Submitted online

Dear Economics Legislation Committee Secretary,

### **Gas Market Code Regulations Inquiry**

The Australian Financial Markets Association (**AFMA**) is responding to the Economics Legislation Committee Inquiry on the Competition and Consumer (Gas Market Code) Regulations 2023. AFMA is the leading industry association promoting efficiency, integrity, and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our role is to provide a forum for industry leadership and to advance the interests of the markets and their respective participants. AFMA has more than 125 members reflecting a broad range of participants in financial markets, including energy firms who are key participants in Australia's wholesale energy markets.

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#### **Key Points**

- **The gas market has been subject to a high volume of regulatory change in a very short period of time.**
- **Much of the regulatory activity was motivated by unprecedented market volatility which the market has now largely resolved independent of the Government's intervention.**
- **Policy makers should review the impact of the reforms on the gas market and consider if there is a solid case for ongoing market intervention.**

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Gas remains an important fuel for the domestic economy, is an important export product and will play a key role in the energy market transition to net-zero. We therefore assess that Australia requires responsible policy settings that balances these needs. AFMA is concerned that the recent high volume of rapid regulatory change, which has been implemented with limited consultation, presents a significant risk to the development of the gas market. We encourage policy makers to conduct a thorough review of the various interventions made to date to determine if they are fit for purpose.

#### **1. Introduction of the Government's intervention**

Global energy markets experienced severe disruptions during the middle of 2022 which caused significant pain to some energy users. This led to an understandable desire from policy makers to cushion the impact of the market volatility for Australian consumers while the global gas market resolved the dislocation. This resulted in a number of rapid, overlapping interventions in the gas market, including:

- the Gas Market Code;
- reforms to the Australian Domestic Gas Security Mechanism;

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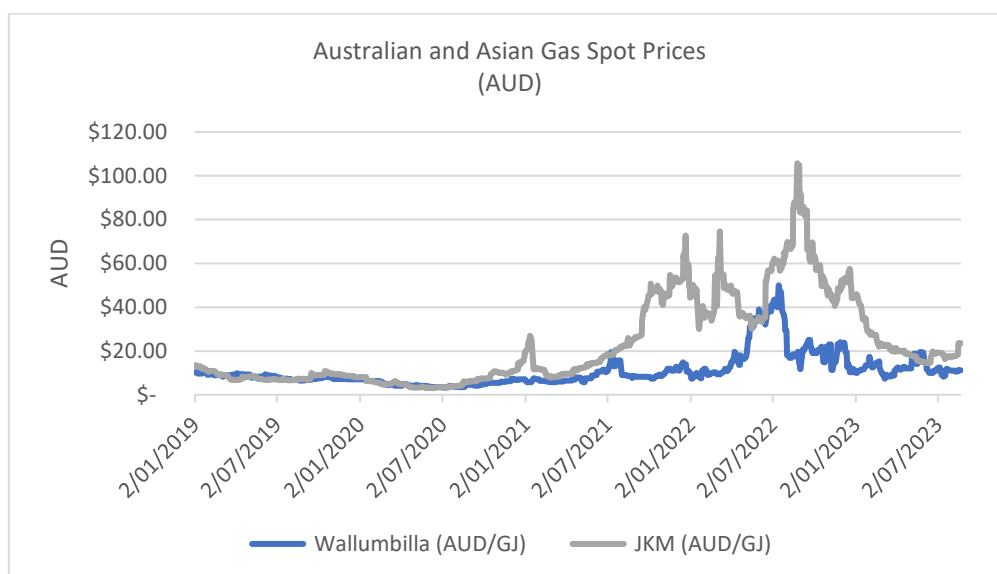
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- a revised Heads of Agreement with gas producers; and
- extending the Australian Energy Market Operator’s (AEMO) powers to manage east coast gas adequacy.

AFMA is concerned that these overlapping interventions are likely to reduce the effectiveness of market signals which may reduce investment and increase the risk of inadequate supply.

## 2. Impact of the intervention and state of the current market

The Gas Market Code was the Government’s response to the unprecedented high prices seen on the east coast in the middle of 2022. At the time, AFMA cautioned that the extreme high prices were unlikely to persist, and we note that by December last year, there were signs the market was correcting. Asian and local spot gas prices have continued to decline this year and are now at levels similar to those seen in 2021; and are well below the levels seen in Asia. AFMA considers that the decline in gas prices is largely the result of market forces, rather than the Government’s intervention. We particularly note that the majority of the decline in Australian prices occurred before the Government’s intervention and that Asian prices have also declined during the period. We therefore question the policy rational for an ongoing intervention in the east coast gas market given that the global market has performed as expected with additional supply coming into the market in response to very elevated prices, resulting in prices reverting to more normal levels— as evidenced in the graph below.



Data: AEMO and Platts (as quoted on investing.com)

Since the commissioning of the Queensland LNG projects, east coast gas prices have been linked to Asian LNG prices (such as JKM). However, while they are linked, as shown in the chart above, the key Wallumbilla east coast spot price has generally remained below Asian LNG spot prices. For most of the past two years, east coast spot prices have been substantially below the netback price that would be implied by deducting the costs of transport and liquification from the Asian spot prices. We think it is worth noting that peak east coast gas pricing was more closely aligned with high National Electricity Market demand for gas generation in the middle of 2022 rather than movements in JKM, which suggests that the fundamentals of Australian supply and demand have had greater impact on east coast gas prices than the impact of volatility in global markets.

AFMA considers therefore, that there is ample evidence that both the international and east coast gas markets have responded effectively to last year’s dislocations and that prices have returned to

more normal levels. As a result, we do not see that there is a good basis for ongoing intervention in the market.

The market has had an opportunity to observe the impact of the lack of certainty created by the introduction of the \$12 gas price cap, as a number of projects have been delayed as suppliers are unsure of the price, they will be able to get for their output. AFMA is concerned that continued intervention in the east coast gas market undermines the confidence required for new investment and could ultimately threaten the security of supply.

AFMA has also observed reduced liquidity in longer dated physical Wallumbilla products, which has contributed to delays in the implementation of an ASX listed physically settled Wallumbilla futures product. This has reduced the ability for firms to manage risk and has negatively impacted transparency by delaying the development of the forward price.

### **3. Future of gas and the energy transition**

As noted above, gas is expected to play a key role during the transition of the energy market to net-zero by providing firming capacity to support increasing quantities of variable renewable generation and we consider that this critical role needs to be considered when setting policy for the gas market. Under the most likely scenario in its 2022 Integrated System Plan (ISP), AEMO anticipates that the majority of coal fired generators will retire by 2030 but anticipates a “critical need for peaking gas-fired generation ... through the ISP time horizon to 2050” to provide part of the firming capacity required to support increasing volumes of variable renewable generation.<sup>1</sup> Furthermore, in its 2023 Gas Statement of Opportunities, AEMO has identified the potential for gas shortfalls to emerge in the southern states from 2027.<sup>2</sup> AFMA’s members are concerned that inappropriate market regulation will hamper the ability of these gas fired units to access gas, reducing their ability to support the energy transition.

Thank you for considering the points and suggestions raised in this submission. AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me via [myoung@afma.com.au](mailto:myoung@afma.com.au) or 02 9776 7917.

Your sincerely,



**Monica Young**

Policy Manager

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<sup>1</sup> [2022 Integrated System Plan](#)

<sup>2</sup> [2023 Gas Statement of Opportunities](#)