

### **Commonwealth Government Releases Draft Energy White Paper**

On 13 December 2011, the Commonwealth Government released its *Draft Energy White Paper – Strengthening the Foundations for Australia’s Energy Future* (the “White Paper”).

The Australian Government sees markets as the best way to deliver Australia’s energy future. The White Paper suggests that State Governments set a clear path for better-functioning energy markets through:

- privatising government-owned energy assets (such as Verve Energy, Synergy, and Western Power);
- fully deregulating gas and electricity retail tariffs;
- recognising that social policy frameworks are the best way to support vulnerable consumers;
- improved demand-side framework to reduce peak-demand growth and enhance options for consumers to manage their energy use and costs;
- completing the transition to national gas and electricity markets;
- better informed government decision-making through improved gas market monitoring; and
- reviewing the environmental policies now that the carbon tax is being established.

In addition, the White Paper suggests that the Commonwealth and State Governments need work together to:

- refine energy policies ensuring efficient investment delivery that meets community requirements and needs;
- ensure that energy resources are developed in accordance with best practice, including environmental conditions and community engagement;
- work with industry and the education sector to develop the infrastructure and skilled workforce and to meet Australia’s future energy needs and export opportunities;
- work with industry and the research community to achieve the technological breakthroughs needed to meet our goals; and
- promote the education and understanding of our energy sector.

The 325 page White Paper is open for public comment, with submissions due by 16 March 2012.

The more relevant sections to the gas industry are the 25 page Executive Summary and section 6B.7 on Gas Market Issues

A copy of the White Paper is available at:  
[http://www.ret.gov.au/energy/facts/white\\_paper/draft-wpw-2011/Pages/Draft-Energy-White-Paper-2011.aspx](http://www.ret.gov.au/energy/facts/white_paper/draft-wpw-2011/Pages/Draft-Energy-White-Paper-2011.aspx).

### **Gas Market Development in the Eastern States**

The Australian Energy Market Operator (“AEMO”) completed implementing the Short Term Trading Market (“STTM”) in Brisbane on 1 December 2011.

Commencement of the Brisbane STTM was smooth, with no issues impacting gas supply and low initial price volatility.

The Queensland Government decided to implement the Brisbane STTM to:

- improve gas market operations;
- increase price transparency; and
- encourage and support infrastructure investment to facilitate gas market growth.

Introduction of the Brisbane STTM has enabled a number of major consumers to enter the market as wholesale market participants, potentially delivering benefits to their operational costs.

Subsequent to the successful implementation of the Brisbane STTM, the AEMO has asked the Standing Council on Energy to explore the potential development of gas supply hubs in Queensland.

The introduction of the Brisbane STTM follows the launch of the STTM in Sydney and Adelaide on 1 September 2010.

The implementation of consistent wholesale trading arrangements in Brisbane, Sydney, and Adelaide has increased the number of participants in these markets. This growth is likely to generate benefits for consumers in the longer term.

## Proposed Changes to the National Gas Rule

In September 2011, the Australian Energy Regulator (“AER”) submitted a rule change request to the Australian Energy Market Commission (“AEMC”) that could significantly change the regulatory framework for gas infrastructure businesses.

The current framework requires that the rate of return on capital invested in regulated gas infrastructure is to be commensurate with prevailing market conditions and the risk involved in providing “reference services”.

The proposed rule change is to align the rate of return for regulated gas and electricity distribution infrastructure. This would involve:

- preparation of a periodic cost of capital review that would apply to both gas and electricity infrastructure;
- locking in the elements of the cost of capital for a 5 year period; and
- specifying a methodology for determining the debt risk premium.

All elements of the rate of return are currently subject to merits appeal, and codifying the elements of the cost of capital would remove the ability for gas infrastructure operators to seek this appeal.

However, if there is a significant event, such as a Global Financial Crisis, the AER could bring forward the periodic review of the rate of return components.

In addition, in October 2011, the Major Energy Users group submitted a rule change request to the AEMC proposing that at each tariff reset, the regulated asset base of a regulated gas business should be subject to optimisation, and that account should be taken of the continued use of fully or partially depreciated assets that are still in operation.

## REMCo’s Systems Refresh

REMCo is pleased with the progress on the refresh of its IT system – the Gas Retail Market System (“GRMS”). Logica has delivered the detail design documents for the GRMS refresh, which is now under review.

Completion of the refresh program is targeting March 2012.

## Gas Supply Deal Completed

REMCo welcomes news that Chevron has signed a gas supply contract with gas retail market participant Synergy. The contract is reported to be a 20-year deal, beginning in 2015, and will help secure WA’s future gas supply.

## Bulletin Board and Gas Statement of Opportunities

The Independent Market Operator (“IMO”) held a general information session for its Gas Information Services Project (“GISP”) on Tuesday 20 December 2011. This session provided an update on the GISP legislation progress, regulation and expected rule development timeframes for consultation on the initial Gas Bulletin Board and Gas Statement of Opportunity.

The Gas Advisory Board (“GAB”) has been setup to assist the IMO with the design of the Gas Bulletin Board and the Gas Statement of Opportunity. The GAB met for the first time immediately following the session.

Further information on the GISP and the GAB are available on the IMO website on [www.imowa.com.au](http://www.imowa.com.au)



## Calendar

**Tentative dates for all of REMCo’s meetings are available on the website but the next scheduled meetings are planned for:**

- **REMCo Board – 23 February 2012;**
- **Rule Change Committee – 1 February 2012; and**
- **Technical Working Group – 30 January 2012.**