



## Australian Energy Market Commission

Level 6, 201 Elizabeth Street Sydney NSW 2000  
PO Box A2449, Sydney South NSW 1235

P – 02 8296 7800

F – 02 8296 7899

E – [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

ABN 49 236 270 144

[www.aemc.gov.au](http://www.aemc.gov.au)

Our ref: GPR0003

1 February 2016

Assistant Director Producer Price Indexes  
Australian Bureau of Statistics

By email: [prices.statistics@abs.gov.au](mailto:prices.statistics@abs.gov.au)

### Information Paper: Developments in Producer Price Indexes for Natural Gas, Dec 2015

The Australian Energy Market Commission (AEMC) welcomes the opportunity to make a submission to the Information Paper published by the Australian Bureau of Statistics (ABS) on 16 December 2015 regarding the development of a producer price index for natural gas.

The AEMC makes and amends the rules that govern the National Electricity Market and elements of the gas markets. To support energy market development, we also provide advice to the Council of Australian Governments' Energy Council (Energy Council).

#### Overview

At the request of the Energy Council, the AEMC is undertaking a review of the east coast gas market.<sup>1</sup> The review is being carried out over two stages and on 23 July 2015 we published the Stage 1 Final Report, which included a factbase of current market outcomes. A key finding of this report was that while most natural gas in Australia is traded through confidential bilateral contracts, there is no authoritative information publically available on how wholesale gas prices payable under these contracts are changing over time.<sup>2</sup>

Transparency around wholesale gas price movements assists industry participants to form expectations when negotiating and amending gas contracts and allows organisations, such as the ABS, Reserve Bank of Australia and governments to undertake analysis as part of their respective roles. As natural gas grows in importance to the Australian economy, both as a domestic fuel source and export commodity, accurate information on price movements will also assist in understanding the degree to which natural gas is influencing macroeconomic outcomes.

<sup>1</sup> See: <http://www.aemc.gov.au/Markets-Reviews-Advice/East-Coast-Wholesale-Gas-Market-and-Pipeline-Frame#>

<sup>2</sup> AEMC 2015, East Coast Wholesale Gas Market and Pipeline Frameworks Review, Stage 1 Final Report, 23 July 2015, Sydney, p. 159.

After considering different options to increase transparency around wholesale gas prices in Stage 1 of the review, the AEMC recommended working with the ABS to establish a wholesale gas price index. The ABS is well suited to carrying out this task given its expertise in establishing price indexes and its reputation for safeguarding commercial-in-confidence information. This measure was endorsed by Energy Ministers at their July 2015 meeting.<sup>3</sup>

### **Proposed approach to establishing a wholesale gas price index**

The AEMC supports the proposed approach set out by the ABS of establishing an output-based producer price index for "IOPC 07000030 natural gas in the gaseous state". An output based index will measure the change in prices received by producers, excluding taxes, transport and trade margins. As such, it will represent how average wholesale gas prices are changing over time without being influenced by pipeline transportation costs and other taxes and charges.

This is particularly important if gas market participants opt to use the index in negotiations to form expectations of future wholesale gas prices or as a periodic escalation factor in gas contracts. In both cases, market participants will be hesitant to use the index if it was influenced by supply and demand factors exogenous to the wholesale natural gas market (i.e. market power or cost inflation on transmission pipelines), therefore undermining its value to the industry. The AEMC also supports this approach as it should have the least impact on industry participants and be less costly for the ABS to collect the data, as there are a smaller number of producers than end users of gas. Most producers will have contracts with many different buyers, allowing the ABS to collect a representative sample of contracts using this approach.

Notwithstanding this, concerns were voiced by some gas users at the joint ABS/AEMC workshops due to perceptions that producers could provide selective contract data to the ABS, with the potential for index movements to be manipulated. The AEMC notes that while these issues can be mitigated by the ABS through cross checking and other data integrity measures, negative perceptions around the integrity of the index will undermine its usefulness. In this respect, the AEMC considers that the ABS should be as transparent as possible around its methodology for compiling the index and measures to promote the integrity of the data.

One way of providing stakeholders with additional confidence in the index is through the ABS publishing retrospective data, allowing participants to test the index movements with their own market experience. The AEMC supports the proposed approach by the ABS to provide 12 months of historical data from the quarter the index is first published. If sufficient data is available, the AEMC sees value in providing further historical data to provide participants with comfort around how the index is likely to respond to changes in market conditions over a long period of time.

### **Level of aggregation**

The AEMC supports the index being disaggregated in the following way:

- National
- East Coast: all states and territories except Western Australia and the Northern Territory
- West Coast: Western Australia

Due to the different supply and demand fundamentals within the east coast and west coast gas markets, the AEMC considers that, for the index to be useful for the gas industry and broader stakeholders, sufficient data should be collected by the ABS to allow disaggregation between these markets. As the Northern Territory gas market is small and concentrated, we do not consider that disaggregation at this level would be possible due to the likelihood of revealing information that is

---

<sup>3</sup> COAG Energy Council, Meeting Communique, 23 July 2015.

commercial-in-confidence (nor have the same level of value as disaggregating the east coast from Western Australia).

We look forward to continuing to work with ABS officials over the next few months leading up to launch of the index.

