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Submitted by email: [GWCF\\_Correspondence@aemo.com.au](mailto:GWCF_Correspondence@aemo.com.au)

## **Gas Market Parameters Review 2022 – Draft Determination**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Operators (AEMO) Gas Market Parameter Review 2022 Draft Determination.

The gas market parameters play a crucial role in limiting risk for market participants, while also supporting efficient market operations and investment decisions. While we generally agree the existing market parameters are broadly fit for purpose in this context, we remain of the view there is a need to increase the level of the cumulative price threshold (CTP) in the Declared Wholesale Gas Market (DWGM) to improve alignment with the Short Term Trading Market (STTM).<sup>1</sup>

As noted in our response to the earlier consultation paper, it is clear gas / electricity markets are becoming more interlinked as the National Electricity Market (NEM) transitions towards higher levels of variable renewable energy (VRE), with price signals across the facilitated gas markets / NEM fundamental in signalling where gas is most valued at any point in time. This in turn impacts participants' allocation of gas across those markets. Gas prices are also now higher on average and more volatile relative to historic levels when the current suite of parameters were determined.

The progressive reduction of the DWGM CPT from \$3,700 in 2014 to \$1,400 (currently) has increased the likelihood of the DWGM entering an administered pricing period relative to the STTM (i.e. an average price of \$40/GJ will breach the DWGM CPT, compared with \$63 in the STTM). Should this occur at a time when prevailing prices in the STTM and / or NEM are high, incentives for market participants to supply the DWGM are likely to be reduced. This was evidenced in winter 2022, with the DWGM breaching the CPT for the first time in the history of the market on 30 May 2022 and remaining under administered pricing for a period of two months to 31 July 2022. During this time, security of supply concerns emerged, with price signals incentivising withdrawal of gas from the DWGM for use in other markets.<sup>1</sup>

The above issue was considered by Market Reform, who ultimately determined that increasing the DWGM CPT would not be tenable given participant risk limits, which are defined as risk in excess of 500 days lost profit for a 50 per cent hedged demand-side participant.<sup>2</sup> The Draft Determination also notes Market Reform's suggestion that the issues associated with inter-market flows that may arise when one market is in an administered state earlier than another could be addressed by introducing a supplementary trigger that allows for simultaneous application of administered pricing across two or more markets.<sup>3</sup>

In Origin's view, further consideration should be given to the *acceptable* risk limits applied through the modelling exercise to consider whether they remain appropriate. Noting, the current limits were set in 2013, we generally consider that in the current environment of heightened prices / volatility, a prudent

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<sup>1</sup> See: AEMO, 'DWGM Intervention Report (gas day 1 June 2022)', 20 June 2022, pg. 4; AEMO, 'DWGM Intervention Report (gas days 14, 18 and 19 July 2022)', 2 August 2022, pg. 4.

<sup>2</sup> Market Reform, 'Gas Market Parameters Review 2022 – Draft Recommendations Report', 1 December 2022, pg. 55.

<sup>3</sup> AEMO, 'Review of the Gas Market Parameters for the DWGM and STTM', 1 December 2022, pg. 19.

market participant would likely seek to hedge to a higher level and therefore be less exposed to market prices.

We are also not supportive of introducing an additional mechanism to allow for simultaneous capping of markets, noting this could have the unintended impact of more frequent and potentially unnecessary application of administered pricing across the facilitated gas markets. Our preference remains to ensure the administered price parameters are set at an efficient level to balance participant risk while supporting market operations / investment signals, which we consider could be achieved by increasing the DWGM CPT to improve alignment with the STTM.

If you wish to discuss any aspect of this submission further, please contact Renee Flinders at [renee.flinders@origin.com.au](mailto:renee.flinders@origin.com.au) or on 0436 932 588.

Yours Sincerely,

A handwritten signature in black ink that reads "S Cole". The signature is written in a cursive, slightly slanted style.

Shaun Cole  
Group Manager, Regulatory Policy