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Gas Market Parameters Review 2022 – Draft Consultation Report

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

Origin is strongly supportive of applying a modelling / assessment approach that explicitly considers interactions between the individual facilitated gas markets, and between each of those markets and the National Electricity Market (NEM). As identified in the Consultation Paper, administered pricing parameters have historically been set based on consideration of each market in isolation.¹ The events of winter 2022, particularly in the Declared Wholesale Gas Market (DWGM), have highlighted the potential limitations with that approach and need for greater (relative) alignment across markets. To this end, we consider there is a risk that current administered price parameters in the DWGM may not support efficient market operations going forward given underlying changes in east coast energy market dynamics.

1. Assessing the adequacy of administered pricing parameters

The cumulative price threshold (CPT) and administered price cap (APC) play a crucial role in limiting risk for market participants, while also supporting efficient market operations and investment decisions. While these parameters may have been set at appropriate levels based on historic market dynamics, it is clear gas prices are now higher on average and more volatile relative to those levels. Gas / electricity markets are also becoming more interlinked as the 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.

The progressive reduction of the DWGM CPT from \$3,700 in 2014 to \$1,400 (currently) is problematic in this respect. It has resulted in an increased 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 issue played out 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. This contributed to the need for AEMO to issue threat to system security notices on 1 June and 14, 18 and 19 of July 2022 due to insufficient offers (in aggregate) being made available to meet forecast demand. In each case, AEMO observed a response from market participants through increased injection offers.² This was likely indicative of the fact that the underlying security concern was not being driven by a lack of physical supply, but rather

¹ Market Reform, 'Gas Market Parameters Review 2022 – Draft Consultation Report', 5 September 2022, pg. 32.

² 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.

the administered price cap not reflecting the incremental value of supply to participants given prevailing supply / demand conditions across the east coast.

Given the above, it is important Market Reform's analysis adequately considers the interaction between markets and the potential for scenarios such as that observed in winter 2022 to reoccur. At a minimum, we consider an increase in the DWGM CTP is required to ensure it binds at a higher average gas price that is more aligned with the STTM. This would provide a better balance between minimising participant risk and facilitating efficient market outcomes.

2. Review period

We understand the gas market parameters under review are intended to be applied from 1 July 2025. However, we are supportive of Market Reform considering the implications of parameters that could be applied from 1 July 2023, as requested by AEMO. Noting a process is underway to establish a temporary increase in the NEM APC to address an identified operational risk, it is prudent to explore whether equivalent changes are required to mitigate the risks identified above and reduce the need for any AEMO-led interventions.

3. Other matters for consideration

Application of administered price caps associated with retailer of last resort (RoLR) events

As noted in the Consultation Paper, a RoLR event triggered the application of administered pricing in the Brisbane and Sydney STTM hubs from 24 May to 7 June, with the Brisbane hub capped at the APC and the Sydney hub capped based on a rolling average of the preceding 30 days. This was the result of the event being classified as minor and major in those respective markets.

The alternate cap applied to the Sydney STTM resulted in a clear disconnect in pricing relative to the DWGM at the time, with the Sydney STTM price sitting at a lower level.³ Under such a scenario, shippers could be incentivised to withdraw gas from the Sydney STTM but inject into the DWGM to achieve higher value. This could potentially contribute to the need for contingency gas, which is typically called on to facilitate additional supply in circumstances where there is a physical issue limiting injections, not where supply signals are being suppressed below efficient levels relative to adjacent markets.

While not the subject of this specific process, we recommend AEMO review the threshold used to distinguish between major and minor RoLR events; and the merit of applying the APC rather than a rolling average of recent prices where a major RoLR event is triggered.

Interaction with the Reliability Panel's review of NEM settings

Consideration should be given to providing a single body like the Reliability Panel with oversight of both electricity and gas market parameters. This is not to disparage the work of AEMO in undertaking parameter reviews to date. However, providing the Panel with oversight of both areas would enable a consolidated review to be undertaken, which would likely provide efficiency benefits and potentially allow for the interaction of settings across markets to be better considered. Where this isn't achieved, it would still be prudent to consider the timing of the gas market parameter review, noting it may be preferable for the review to be undertaken ahead of the NEM Reliability Standard and Settings Review to the extent gas prices are a key input into the Panels assessment.

³ As at Wednesday 25 May 2022, prices in the Sydney STTM were capped at \$27/GJ. In comparison, prices in the DWGM reached \$36/GJ.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,

A handwritten signature in blue ink, consisting of a series of connected loops and a vertical line at the end, resembling the name 'Steve Reid'.

Steve Reid
General Manager, Regulatory Policy