



7 October 2022

Energy Ministers Secretariat  
Department of Climate Change, Energy, the Environment and Water  
GPO Box 858, Canberra ACT 2601

Submitted via email: [gas@industry.gov.au](mailto:gas@industry.gov.au)

Dear Energy Ministers Secretariat

### **Extension of AEMO Functions and Powers – Consultation Paper**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on Energy Senior Officials' Consultation Paper on the *Extension of AEMO Functions and Powers to Manage Supply Adequacy in the East Coast Gas Market*.

Origin recognises the intent of the proposed amendments is to ensure there is adequate supply of gas to the east coast. However, we have material concerns around the proposal to provide AEMO with a formal trading role across the east coast gas market, particularly given the broad scope of AEMO intervention powers proposed and limited detail around how they would be utilised and governed.

We also consider the introduction of new information provision requirements has not been adequately justified and would represent a significant administrative burden for participants, noting these proposed reporting obligations are in addition to the Gas Transparency Measures currently being implemented. It is also not clear that sufficient analysis has been undertaken to determine whether existing/pending reporting requirements could be leveraged by AEMO to address some of the identified reporting areas.

More detailed comments on aspects of the Consultation Paper are outlined in Attachment 1 and we intend on providing further feedback on the draft regulations and draft gas rules in our next submission.

If you wish to discuss any aspect of this submission further, please contact Thomas Lozanov at [thomas.lozanov@originenergy.com.au](mailto:thomas.lozanov@originenergy.com.au) or on 0400 047 068.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read "Steve Reid".

Steve Reid  
General Manager, Regulatory Policy

## 1. Overarching Functions

Questions	Feedback
<p>1. <b>Do stakeholders have any comments on the scope of AEMO's new reliability and supply adequacy functions and the related rule-making powers as outlined in the draft Bill?</b></p>	<p>The new functions are very broad and wide ranging. For example, the basis on which AEMO can exercise its directions power includes “for the purposes of maintaining or improving the adequacy of supply of natural gas in the east coast gas system”. However, “adequacy” is not defined in the National Gas Law (NGL) and there is no requirement for a threat to system security or public safety or emergency to first be identified in order for this power to be exercised.</p> <p>We also have material concerns around the appropriateness of AEMO participating in a market it is responsible for operating, given AEMO would effectively be competing with market participants in procuring gas from the DWGM and there may be a level of information asymmetry between those parties that could distort efficient market outcomes and reduce participants' commercial incentives to manage their own risk (e.g. through procurement of storage capacity). There are also questions as to whether AEMO has the necessary expertise to trade in the market.</p>
<p>2. <b>Does the definition of east coast gas system exclude anything that should come within scope of the new function?</b></p>	<p>No comment.</p>
<p>3. <b>Do stakeholders consider any additional requirements should be specified in the rules in relation to the manner in which AEMO exercises its functions?</b></p>	<p>It is challenging to provide specific commentary on the adequacy of the rules given the limited time period provide for consultation. However, in general, we consider it crucial that the rules provide adequate clarity around how AEMO's new functions would be utilised and governed.</p>
<p>4. <b>Do stakeholders consider that AEMO should develop any specific procedures or guidelines for its new functions?</b></p>	<p>Yes, we consider AEMO should develop specific procedures for its new functions. These procedures should be developed in formal consultation with industry.</p>
<p>5. <b>Do you think a review of this regulatory package after three years is appropriate?</b></p>	<p>Yes, given the possible impacts of the proposed reforms on the market, it would be prudent to review the regulatory package after three years, if not sooner.</p>

## 2. Transparency

Questions	Feedback
<p><b>6. Do the proposed additional reporting requirements provide sufficient daily and monthly information to enable AEMO to monitor and signal potential threats to east coast gas system adequacy over a sufficient forecast period?</b></p>	<p>The proposed information reporting requirements are onerous, as a vast amount of data will need to be provided by participants. The Consultation Paper provides no detail around the potential for overlap with existing/pending reporting requirements across both electricity and gas markets, and the extent to which that information could be leveraged by AEMO to inform its view of the market. The proposed reporting obligations will also impose further costs on parties that have already allocated significant time and resources to prepare for, and implement, the information provision requirements set out in the Gas Transparency Measures.</p> <p>The ongoing nature of the data requirements means participants will need to allocate further resources to develop, test and implement new reporting systems. The lead time required for AEMO and market participants to implement and test such systems should be factored into implementation timeframes associated with the reform package.</p>
<p><b>7. Do stakeholders have any comments about the proposed additional information reporting and disclosure arrangements, and related transitional timeframes?</b></p>	<p>Under the proposed reforms AEMO would be able to disclose commercially sensitive information to ministers and their departments. We are concerned that there appears to be no restrictions on the information that may be shared and how it can be used.</p> <p>Potential limitations around the disclosure of this information could include:</p> <ul style="list-style-type: none"> <li>▪ limiting the use of information to managing the response to an actual or potential threat; and / or</li> <li>▪ imposing appropriate confidentiality obligations on any party receiving information.</li> </ul>
<p><b>8. Should there be any specific limits on who should be captured by disclosure obligations or ways to minimise compliance obligations such as thresholds, reporting party definitions, or links to other regulatory reporting requirements?</b></p>	<p>We note the definition of “gas powered generator” is unnecessarily broad and would potentially capture small generating systems which are otherwise exempt from registration in the NEM. For example, this would potentially capture generating units under the 5MW standing exemption. A more appropriate definition would perhaps be: “a Generator, as that term is defined in Chapter 10 of the NER, that is powered by natural gas.”</p> <p>Under the proposal, participants would face penalties if they do not provide required information in a timely manner. Transitional arrangements should be included so that these compliance penalties do not apply from the outset, to allow</p>

	participants time to familiarise themselves with the new obligations and establish new reporting systems, as noted above.
<b>9. What are your views on:</b> <b>a) The categories of information, and are they appropriate for real-time or hourly reporting?</b> <b>b) What is the optimal approach to the collection of the categories of information listed?</b>	The dynamic nature of the market means highly granular forecasts of expected demand over a five-month time horizon would be subject to significant uncertainty. As such this data is unlikely to yield useful and reliable insights.

### 3. Signalling

Questions	Feedback
<b>10. What are your views on formalising and extending AEMO's ability to hold Gas Supply Adequacy and Reliability Conferences?</b>	<p>Origin notes the current Gas Supply Guarantee (GSG) has been a useful coordination mechanism and resulted in the delivery of additional supply when activated earlier this year.</p> <p>Rather than introducing a new more involved framework, we first recommend that the existing GSG mechanism is formally evaluated.</p>

### 4. Direction Powers

Questions	Feedback
<b>11. Are there particular principles which should guide AEMO's expanded powers of direction?</b>	<p>In general, directions to participants can distort efficient market outcomes and reduce participants commercial incentives, which over the long term may culminate in higher costs, reduced competition, and supply adequacy issues.</p> <p>Origin does not support the proposed direction powers, noting these new powers are broader than AEMO's existing directions powers in the DWGM. We note there is a lack of clarity on: the circumstances that could lead AEMO to intervene, the types of intervention and the process involved.</p> <p>Concerningly, it would appear that AEMO could direct a market player to transfer their gas supply to AEMO or another party. We do not consider this to be an appropriate intervention power and it is unclear how this could be operationalised in practice given contracts that are currently in place.</p>
<b>12. Are there any other approaches that could be undertaken to elicit</b>	No comment.

<b>market responses ahead of directions powers?</b>	
<b>13. How should AEMO work with stakeholders in giving directions?</b>	No comment.
<b>14. Are there technical matters that should be considered in the issuing of directions powers?</b>	<p>Unlike AEMO's DWGM direction powers, there is no requirement for AEMO's direction to an east coast gas system entity to be consistent with jurisdictional safety laws. This could be problematic, for example, what happens if a direction to a gas producer is inconsistent with gas/LNG processing safety regulation/laws in Queensland.</p> <p>The proposed direction powers apply to a much wider range of entities ("relevant entities") than AEMO's existing direction powers in the DWGM which are confined to registered or exempted participants. We query whether AEMO's directions power should be limited to registered participants particularly given AEMO is not performing a system operator role in relation to the east coast gas system.</p> <p>AEMO's power to direct should be limited to circumstances in which there is a serious market event or threat and in emergency/unexpected scenarios (as is the case in relation to AEMO's power to direct in other markets such as the DWGM and NEM).</p>
<b>15. Are there particular principles which should guide AEMO's expanded powers of direction?</b>	No comment.

## 5. Cost recovery and compensation

Questions	Feedback
<b>16. Do the proposed changes to the cost recovery framework enable AEMO to appropriately recover costs in relation to its east coast gas market reliability and supply adequacy functions?</b>	No comment.
<b>17. What costs should parties who must comply with directions be able to seek compensation for? (e.g. direct costs, opportunity costs)</b>	Generally, allowing directed parties to claim direct costs and opportunity costs helps to ensure they are appropriately compensated.
<b>18. How should the costs of compensation be apportioned and recovered from the market?</b>	No comment.

<p><b>19. Should there be financial limits on individual claims, or on claims overall within a financial year?</b></p>	<p>No comment.</p>
<p><b>20. Is the proposed \$35m initial trading allocation appropriate?</b></p>	<p>The Consultation Paper provides limited detail around the basis for the initial trading allocation. At the very least, a review mechanism should be established to consider the level of the fund and how it is being utilised over time.</p>
<p><b>21. How should the trading function be funded?</b></p>	<p>No comment.</p>
<p><b>22. What principles, if any, should guide AEMO's trading functions?</b></p>	<p>As previously noted, Origin does not support establishing an AEMO trading function. We also note there is no clear framework for how AEMO will use this new power.</p> <p>If Senior Officials are determined to introduce the trading function, potential principles that could be considered include:</p> <ul style="list-style-type: none"> <li>▪ Explicitly linking AEMO's trading function to actual or potential threats.</li> <li>▪ Confirming that the trading power is only to be used as a last resort and that market should always be given the opportunity to respond.</li> <li>▪ Preventing AEMO from holding positions for greater than 12 months to reduce the risk of AEMO interventions becoming a permanent feature of the market.</li> </ul>