



24 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

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*. This submission, our second as part of this process, primarily provides feedback on the longer-term supply adequacy reforms proposed in the Consultation Paper.

Origin recognises the intent of the proposed reforms is to improve market transparency and provide AEMO with additional mechanisms to manage adequacy of supply. However, prior to pursuing these reforms and seeking further technical advice on their design, it would be prudent to first consider the deficiency in the current framework the measures are expected to resolve, any potential impacts for market participants / consumers.

We do not consider it necessary or appropriate to introduce obligations on generators and retailers to enter supply contracts or establish a formal role for AEMO to procure unused storage capacity. Market participants already have strong commercial drivers to manage their loads, including through utilisation of storage capacity. Imposing specific contracting obligations would distort participant decision making and likely result in less efficient market outcomes for consumers more broadly. AEMO's procurement of storage capacity would also likely have the perverse effect of reducing incentives for market-led procurement of storage capacity, exacerbating the issue it is expected to resolve

In terms of new supply adequacy metrics and monitoring, a new formal gas reliability standard could notionally be used to inform the level of facilitated gas market settings and guide AEMO's use of any intervention powers. However, the case for establishing a new gas Projected Assessment of System Adequacy (PASA) system is unclear, given there are existing processes for monitoring the supply / demand balance across short and medium term time frames and signalling the need for market response (for example, Threat to System Security notices and the Gas Statement of Opportunities). If there is an identified shortcoming with these processes, consideration should be given to a targeted solution that avoids the need for any substantive increase in reporting requirements for market participants.

The introduction of a demand management or Reliability and Emergency Reserve Trader (RERT) style framework also needs to be carefully considered so that it does not result in further system and market costs ultimately borne by end consumers. It would be important to incorporate checks and balances that mirror those applicable to the NEM's RERT mechanism to ensure any procurement of capacity is consistent with meeting a defined reliability need and aligned with the value customers ultimately place on reliability.

Having regard to the above, we also note the Consultation Paper does not explain how the proposed mechanisms would interact with one another, and there is no discussion of their operational hierarchy. This needs to be considered as part of any further assessment of the reform package to help determine whether all the measures are needed (noting some are trying to address similar issues) and to better understand their individual and collective impact on the east coast gas market. For example, the rationale for establishing both a RERT style framework and a formal storage contracting mechanism is not clear given both frameworks are seemingly seeking to achieve the same objective.

We have provided further comments on specific aspects of the proposed longer-term reforms, Draft Regulations and Draft Gas Rules in Attachment 1.

If you wish to discuss any aspect of this submission further, please contact Thomas Lozanov at thomas.lozanov@originenergy.com.au.

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 Manger, Regulatory Policy

1. New obligations on participants

Origin is not supportive of introducing new obligations on participants that require them to provide information to AEMO on their supply arrangements, or powers to compel certain parties to contract *sufficient* storage / supply to manage extreme peaks and / or supply shortfalls.

Participants already provide extensive information on their supply arrangements through AEMO's existing GSOO survey process¹ (which has been strengthened via the Gas Transparency Measures reforms) and in response to the ACCC's ongoing Gas Inquiry. Additional reforms² are also currently being considered which will increase the AER's visibility of participants' contract arrangements. It would be prudent to consider how information gathered through existing/impending processes could be utilised by AEMO (where appropriate) prior to introducing new reporting obligations.

Market participants also already have strong incentives to ensure they can cover their peak demand to avoid exposure to purchasing spot gas at potentially high prices. Compelling parties to contract storage / supply could impact commercial decision making and impede the ability of participants to efficiently manage their portfolio. This may give rise to perverse outcomes in circumstances where the obligation results in a retailer being compelled to sign an unfavourable supply contract that could see them incur a loss; or divert supply from its gas-powered generators to fulfil its obligation. It is also not clear why this power would even be required in circumstances where AEMO is separately provided with the ability to direct market participants, as proposed in Stage 1 of this reform package.

To the extent there are concerns about incentives for market participants to cover their demand and / or rely on spot market purchases, a more appropriate solution would be to ensure the facilitated gas market parameters are set at the appropriate level, noting a separate process is underway to address this. Security of supply concerns observed in the Declared Wholesale Gas Market (DWGM) during winter 2022 primarily emerged while the market was under administered pricing, with price signals incentivising withdrawal of gas from the DWGM for use in other markets. A key priority for AEMO's Gas Market Parameters Review should therefore be to ensure administered price parameters in the DWGM support efficient market operations going forward given underlying changes in east coast energy market.

2. AEMO contracting unused storage capacity

Origin does not consider a formal mechanism to allow AEMO to contract for unused storage capacity is necessary or appropriate. This is because it is unclear what deficit in the current framework the proposed mechanism would address, and the mechanism would likely have the perverse effect of reducing incentives for market-led procurement of storage capacity, exacerbating the issue it is expected to resolve.

As noted above, market participants have strong incentives to ensure they can cover their peak demand. Access to alternate sources of supply provides participants with a range of options as to how to achieve this and efficiently manage their gas portfolios. While the level of contracted capacity at the Dandenong LNG facility has reduced by around 300-400 TJ over the 2021 to March 2025 period, we do not agree this is indicative of any underlying market failure that would warrant the introduction of a procurer of last resort function, particularly for reliability purposes. Rather, it is more likely a reflection of the cost-effectiveness of the service relative to alternate supply options. This is evidenced by the fact the Iona Underground Storage, the largest storage facility in the southern states, is close to fully contracted over

¹ Gas supply data is provided to AEMO on both an annual contracted quantity basis and a maximum daily contracted quantity basis. The data is further broken down by connection point and categorised as firm contracted, firm uncontracted and non-firm/ as available. Data is provided over a 20 year outlook period.

² *Amending the AER's Wholesale Market Monitoring and Reporting Framework* – reform package being considered by Energy Ministers.

the same period, with the level of contracted capacity increasing by more than 2,500 TJ relative to June 2020 levels.³

Allowing AEMO to contract unused storage capacity would have a distortionary effect on the market-led procurement of storage. AEMO would effectively be competing with market participants in procuring gas and there may be a level of information asymmetry between those parties that could result in inefficient market outcomes. Storage operators would also have reduced incentives to improve the cost competitiveness of storage services if AEMO is willing to buy all uncontracted capacity. Further, under a generalised cost recovery approach (e.g. through market fees), participants with contracted storage capacity would also be exposed to additional charges associated with AEMO's procurement, undermining the overall benefits of proactively contracting the capacity.

Noting our concerns, should a formal procurer of last resort type function be established, it would need to be designed with a view to minimising the likely level of market distortion. Key issues for consideration would include defining a target level of capacity based on a clearly identified need, and ensuring costs are only recovered from those participants that are notionally creating the need for reserve procurement (i.e. net withdrawers during peak periods).

3. Establishment of a formal gas reliability standard

We agree a formal gas reliability standard could be used to guide AEMO's approach to identifying and signalling gaps in system reliability and inform the need for any subsequent interventions, which may be particularly relevant if additional procurer of last resort type functions are established. Where a formal reliability standard is introduced, it would also need to be factored into the gas market parameter setting process to ensure market price caps are set at an appropriate level to drive market-led outcomes and reduce the need for intervention.

As with the National Electricity Market (NEM), the appropriate level of any gas reliability standard and the associated economic trade-offs should be determined by an independent body like the Reliability Panel.

4. Development of a gas Projected Assessment of System Adequacy (PASA) system

The Consultation Paper states a gas PASA could be used to assess adequacy against the proposed formal gas system adequacy standard over short-term and long-term timeframes. However, there are already mechanisms in place for monitoring the supply/demand balance and calling for market response across the facilitated gas markets. Specifically, in operational timeframes, AEMO can advise of supply risks and seek a market response by issuing a notice of a threat to system security. Over the medium term, AEMO can provide information on the supply/demand outlook and any emerging risks in its annual GSOC and Victorian Gas Planning Report (VGPR). It would therefore be prudent to first identify the specific deficiency that a new PASA system would be expected to resolve with a view to providing a targeted solution (if necessary) and avoiding the need for any substantive increase in reporting requirements for market participants.

5. Demand Management Framework

A comprehensive assessment of the costs / benefits associated with a new demand management or Reliability and Emergency Reserve Trader (RERT) style mechanism would be required prior to the introduction of any such mechanism. As evidenced in the NEM, RERT style frameworks can give rise to high costs for consumers – NEM RERT costs for the 2021-22 financial year totalled \$130m

³ ACCC, 'Gas inquiry 2017-2025 – Interim report', July 2022, pg. 89.

(\$23,842/MWh).⁴ It is worth noting the Contingency Gas mechanism already provides a similar function to the RERT, as it facilitates / remunerates additional supply in operational timeframes with a view to avoiding curtailment of shippers / users in the short term trading market (STTM).

Where a new framework is to be introduced for the east coast gas market, it would be important to incorporate checks and balances that mirror those applicable to the NEM's RERT mechanism. This would include ensuring any procurement of capacity is consistent with meeting a defined reliability need, and customers' values of reliability.⁵ The rationale for adopting both a RERT style framework and storage contracting mechanism is not clear given both frameworks are seemingly seeking to achieve the same objective.

6. Comments on the Draft Regulations and Draft Rules

Further to comments in our previous submission we provide the following additional feedback on the draft regulations and draft rules:

Draft regulations

- Paragraph 2 references Section 91AF(9), however we think this should in fact be a reference to Section 91AF(8). Section 91AF(8) imposes a positive obligation on a person to comply with the AEMO direction. It would make more sense for the civil penalty to apply to this obligation rather than Section 91AF(9), which contains a liability carve out for damages/loss/injury incurred by an act or omission that is in compliance with a direction.

Draft rules

- Paragraphs 1 to 9 will allow AEMO to recover the costs of exercising its reliability and supply adequacy functions. Given the east coast gas system is not a centralised market (like the NEM), but rather made up of multiple separate markets and facilities, further consideration will need to be given to how costs could ultimately be apportioned on an equitable basis to market participants. In general, we do not consider it appropriate to allocate costs to parties that are not participating in (or in any way connected to) markets / facilities impacted by any AEMO interventions.
- Paragraph 10, Division 5 sets out the framework for directions compensation claims. Unlike the directions compensation regimes in the NEM and DWGM, under the proposed framework eligible claims for compensation must be for a minimum of \$20K 'per direction'. This will not address situations where there may be successive directions issued to the same participant which are short in duration (and the individual claim does not meet the \$20K threshold) but the overall cost impact of the successive directions exceeds \$20K. A more effective approach may be to apply the \$20K threshold over a time period rather than on a 'per event' basis.

⁴ AEMO, *Reliability and Emergency Reserve Trader (RERT) End of Financial Year 2021-22 Report*, p. 6.

⁵ NER cl. 3.20.2(b)(3)