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Review of the Gas Market Parameters for the DWGM and STTM — Draft Determination — 1 December 2022

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We appreciate the opportunity to provide further feedback on AEMO's review of the pricing parameters to apply in the STTM and DWGM from July 2025. AEMO and its consultant, Market Reform, appear to have meaningfully engaged with the wide range of stakeholder suggestions to date, as well as issues arising in the wake of last year's market suspension.

AEMO's draft decision to leave pricing parameters unchanged is prudent. The detailed modelling exercise by Market Reform in relation to risk tolerances and investment incentives does not appear to provide sufficient evidence for change. In addition, price settings in energy markets are highly politicised at present and there is a very high level of uncertainty arising from various government interventions that are still being finalised. The effects of these changes in terms of risk allocation and investment incentives over the medium- to long-term are still unclear but likely to be significant.

We appreciate that Market Reform has canvassed various market design and policy changes in section 2.3.5 of its report, as well as the role of price caps in the face of events that may or may not draw prices away from long-run equilibrium levels. Its report pre-dates government interventions to cap the price of new gas supply contracts and further regulations around participant pricing behaviour. The details of these interventions and their ramifications will still be unknown by the time AEMO must finalise this review. Our expectation is that governments will need to intervene again to overcome heightened investment risk and secure new sources of gas supply. This affects the role of gas market price settings in enabling cost recovery, in the same way that a potential capacity mechanism has overshadowed the Reliability Panel's review of price settings in the NEM. The evolution of an explicit reliability framework around gas supply, to be consulted on over 2023, is also expected to directly affect how pricing parameters are set. For example, if an approach similar to the NEM is adopted, this would involve estimating customers' willingness to pay which would replace AEMO's current reliance on profitability measures for notional participants.

How to optimise future market parameter and methodology processes

As raised in recent stakeholder submissions, gas market parameters should be reviewed either in tandem with or before the Reliability Panel's consideration of NEM parameters. This would require amendments to rule 492(1)(g) of the NGR in relation to the STTM parameter review timing. The current situation has been further complicated by the expedited rule change to temporarily increase the NEM's APC to $600/MWh until 2025. Our expectation is that this value will remain in place until 2028, having been subjected to thorough review and reflecting stakeholder preferences for stability in market parameters. This may somewhat constrain AEMO's future considerations around gas price settings.

It also seems anomalous that AEMO has the power to review price parameters in the STTM rather than the AEMC on recommendations from the independent Reliability Panel.

Our expectation is that the next scheduled review of gas market parameters will be in view of an established pricing intervention and investment framework, as well as a more formalised reliability framework. This might include consideration of risk aversion (as recommended by the Reliability Panel). If this is adopted as a reflection of customer preferences it should be within the scope of any gas market price settings review.

Proposed new Administered Price Cap trigger event

We appreciate Market Reform and AEMO seeking further input on inconsistencies in gas market suspensions and states of administered pricing. Notwithstanding there is still a case for market alignment (see below) we agree that market suspensions should be managed from a more integrated perspective, encompassing the STTM, DWGM and the NEM.

Our reading of the NGR (primarily rules 347(1) and 428) and associated procedures is that it may not be possible to make joint declarations of suspension for the STTM and DWGM. The events of winter 2022 illustrate that the links between gas markets (including within the STTM hubs) in some cases may require the suspension of a related market that has not (or not yet) been directly affected. For example, participants may be disincentivised in supplying one market subject to a lower APC in favour of selling into an uncapped gas market, thus reinforcing scarcity conditions in the suspended market and prolonging its administered state.

AEMO has proposed to address this in terms of a market suspension trigger however care should also be taken to ensure there are appropriate pre-conditions to declare the ending of suspension and administered pricing. Our strong preference is to minimise the amount of time where AEMO operates the market through participant directions. While AEMO and generators worked closely together in real time to ensure supply adequacy during the recent crisis, this relied on goodwill between all parties and outcomes were still clearly suboptimal from a customer perspective. Markets should always be given preference over centralised decision-making where they are able to reach a price that efficiently clears supply and demand in real time. More importantly, under normal market settings, participants use price to ration energy limited resources over different time horizons. Once this is rationing ability is removed under administered pricing, AEMO bears the risk of managing scarce resources even though it has limited visibility of, and no control over, fuel supplies.

We agree that defining the specifics of a joint market trigger would be complicated. AEMO could explore this further within the scenario set used in Market Reform's modelling, particularly scenarios 11 to 13 which seek to test market linkages.

Rather than a pre-defined set of events, we support a trigger being defined with respect to outcomes arising from a lack of consistent pricing across linked markets. A trigger should therefore reflect the following principles and features:

- once administered pricing is triggered in a market for whatever reason, AEMO may similarly declare the suspension of other markets if it considers this is necessary to return one or more markets to safe or normal operation

- a preference to avoid this wherever possible and allow markets to continue to clear or reach an administered state by other triggers (including via the CPT)

- once triggered, a preference to exit as soon as practicable. This could be reinforced with default time limits e.g. as for ROLR events in the DWGM.

We also support measures to ensure markets operate within acceptable commercial and technical boundaries, thus avoiding the need for market suspension in the first place. This includes enhancements to reliability assessments for gas, as well as electricity which are subject to current consultation, particularly energy and fuel limits which AEMO is consulting on separately under its NEM reliability guidelines. Procedural amendments could also allow for AEMO directions in one market (e.g. backing off gas generation in the NEM) with the aim of avoiding suspension in another (e.g. in the STTM/ DWGM).

Alignment of pricing parameters across the STTM and DWGM

We note the general comments from Market Reform and AEMO around the infeasibility of setting uniform values of the price cap/ VOLL and CPT across the STTM and DWGM, primarily because of different scheduling.

We accept there are legacy issues leading to different scheduling approaches, and these issues relate to fundamental market design elements. However some consideration should be given to the longer-term prospects and benefits of aligning the operation of the STTM and DWGM.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

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