

Level 17, Casselden  
2 Lonsdale Street  
Melbourne Vic 3000  
GPO Box 520  
Melbourne Vic 3001  
tel: (03) 9290 1800  
[www.aer.gov.au](http://www.aer.gov.au)

Our Ref: 14,421,417  
Contact Officer: Jeremy Llewellyn  
Contact Phone: 07 3835 4610

7 October 2022

Australian Energy Market Operator  
20 Bond Street  
Sydney, NSW 2000  
Submitted electronically via: [GWCF\\_Correspondence@aemo.com.au](mailto:GWCF_Correspondence@aemo.com.au).

## **AER Submission – Gas Market Parameter Review 2022**

The Australian Energy Regulator (AER) welcomes the opportunity to provide a submission on the Australian Energy Market Operator's (AEMO) Gas Market Parameter Review 2022 that covers a number of parameters used in the Declared Wholesale Gas Market (DWGM) and the Short Term Trading Market (STTM).

We support AEMO's decision to review the DWGM market parameters in conjunction with the STTM parameter review and agree the interaction with the National Electricity Market must also be recognised.

### ***Alignment of Cumulative Price Threshold setting in STTM and DWGM***

The AER notes that the current cumulative price threshold (CPT) setting is different across the STTM and the DWGM, respectively \$440/GJ across 7 days and \$1,400/GJ over 35 periods. This equates to an average price of approximately \$63/GJ to reach the CPT in the STTM in comparison to the lower \$40/GJ to reach the CPT in the DWGM.

The current parameter settings make it more likely the DWGM price will be under an administered price cap while STTM prices are uncapped. During the winter of 2022, STTM price caps did not remain in place for as long as the price cap on the DWGM. Arbitrage opportunities are created to buy gas from the DWGM when the administered price cap is in effect and to sell into the STTM (or to take advantage of spark spreads with NEM prices) where prices are uncapped.

The AER considers that the alignment of CPT settings across the STTM and the DWGM is required to reduce market inefficiency and improve spot market functionality during administered pricing periods. We support any changes to the relevant market parameters that are consistent with managing east coast supply and market risks for participants.

The [3 – 9 July 2022 AER gas weekly report](#) highlights prices in the Victorian market were at the cap of \$40/GJ, while uncapped prices in the Sydney STTM ranged from \$42.56/GJ to \$44.48/GJ. Consistent with these pricing signals, 98 TJ/day flowed north through the VIC-NSW gas Interconnect. Those flows would mostly have been either to arbitrage the higher Sydney STTM price or to realise spark spread opportunities that existed in the NEM. During this time gas storage held in the Iona storage facility in Victoria - critical to meet southern winter demand - dropped by 1.5 PJ, or around 11 per cent of the total storage.

At the same time over 3-9 July, gas flows from the north, where day ahead spot prices were around \$40 per GJ<sup>1</sup> (before transportation costs), were subdued - with only 113 TJ a day flowing south through the Queensland – NSW interconnect. This compares to over 300 TJ after AEMO convened a Gas Supply Guarantee Assessment conference on 19 July following highlighting Iona supply risks for Southern demand.

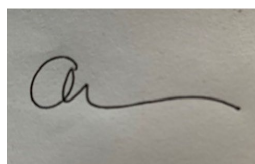
Overall, the AER considers there is a strong case that the different price caps are likely to have led to an inefficient distribution of supply across the east coast over the period.

### ***Calculation of CPT across all five schedules in the Victorian DWGM***

The calculation of the CPT across all five schedules in the DWGM potentially introduces the possibility of gaming of the CPT. The AER has not identified this type of behaviour occurring over Winter 2022 when prices across all schedules were frequently \$800/GJ due to ongoing scarcity issues. However, we consider that prices intra-day, after 6 am, can be more volatile (up or down) in the Victorian gas market and have the potential to be influenced by changes in participant positions. As an example, in the Victorian gas market over the 22, 23, 24 September gas days, there were three \$0/GJ prices at 2 pm, 6 pm and 10 pm respectively. These prices however had a very small impact on the overall trade weighted price on the day given diminishing trading through the day. Alternative approaches such as a volume weighted averaged traded price could be considered, noting that typically most trade occurs at the 6 am price.

We look forward to continuing to work with AEMO on the Gas Market Parameter Review 2022. If you have any queries relating to this submission, please contact Jeremy Llewellyn at [Jeremy.llewellyn@aer.gov.au](mailto:Jeremy.llewellyn@ aer.gov.au).

Yours sincerely



Gavin Fox  
General Manager, Market Performance  
Australian Energy Regulator

---

<sup>1</sup> Wallumbilla (WAL) point prices averaged \$40 per GJ day ahead.