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BUILDING PRODUCTS

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7th October 2022

Mr Luke Stevens

Australian Energy Market Operator

Via email GWCF_Correspondence@aemo.com.au

Dear Mr Stevens,

RE: Gas Market Parameter Review 2022 Discussion Paper Consultation

Brickworks Building Products Pty Limited ("Brickworks") welcomes the opportunity to comment on the Gas Market Parameter Review 2022 discussion paper ("Discussion Paper").

Brickworks is Australia's leading manufacturer of building products and is the owner of Austral Bricks. The company consumes up to 3.1 PJ of natural gas to produce circa 500 million bricks within the east coast of Australia each year. Brickworks is a registered market participant in the Declared Wholesale Gas Market, the Gas Supply Hub and the Short Term Trading Markets in Sydney, Brisbane and Adelaide ("Gas Markets").

Brickworks is concerned about potential gas supply shortfalls. We congratulate and support the AEMO for invoking the Gas Supply Guarantee during winter 2022, which avoided possible gas curtailment and electricity blackouts. We recognise that the only way to resolve potential supply shortfalls in the Gas Markets over the long term is for an increase in domestic gas supply which requires the urgent development of new gas supply projects.

The gas market parameters are critical settings that can directly impact consumer gas costs due to the potential to interact with forward contract prices. The gas market parameters also affect the financial price exposure of gas market participants. For these reasons, Brickworks strongly opposes any potential increase of any of the gas market parameters and does not believe that the current dysfunctional state of the east coast gas market can be modelled at this time.

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Attempts to model theoretical assumptions will not represent the real world because the supply/demand balance depends on LNG exporters supplying sufficient gas to avoid a potential gas supply shortfall under their commitment to the Federal Government under the Gas Heads of Agreement. As LNG exporters primarily supply balancing gas outside the Gas Markets, the gas supply/demand balance is unaffected by the gas market parameters. Similarly, the gas market parameters do not drive new gas supply projects. Long-term contract pricing currently supports new gas supply projects; however, significant regulatory red tape is unnecessarily delaying new gas supply projects commencing. In the context of the current east coast gas crisis, increasing any of the gas market parameters will only lead to increased costs to gas consumers for no benefit, as it simply does not drive a net increase in domestic gas supply.

We have attached detailed comments on the modelling proposed in the Discussion Paper.

Brickworks supports the submission by the Energy Users Association of Australia. Please contact the undersigned if you wish to discuss any aspect of this submission further.

Kind Regards,

Melissa Perrow
General Manager Energy

Attachment – Details Comments on the Discussion Paper

Reference	Feedback Comments
2.4.7 Drivers of unmanageable risk for participants in the STTM and 2.5.1 Linkages between DWGM, STTM and broader gas markets	Risks also include: - LNG exporters failing to meet their commitment to the Heads of Agreement - Government or AEMO intervention preventing gas from being exported from another state into the STTM region. - The APC applies in the STTM region, incentivising one or more market participants to reduce gas injections or increase gas withdrawals to move gas to a higher-priced Gas Market. For this reason, we suggest the AEMO consider raising a rule change request seeking o the APC to apply in all Gas Markets if the CPT is triggered in at least one of the Gas Markets, and o for the APC to continue to apply until the accumulative price is below the CPT in all Gas Markets.
2.6.5 What about an APC indexed to a reference gas price?	We strongly oppose any linking of the APC to other indexes. Further, we do not support any linkage assumptions in the gas parameter modelling to international LNG spot prices, given there is no correlation to domestic gas market spot prices or forward contract prices. If there were a direct correlation, domestic gas consumers would have been able to buy gas as low as $2.29/GJ during the COVID lockdowns. However, this did not occur. We disagree that the gas market parameters could increase compensation claims. Most market participants inject gas into Gas Markets to hedge against their financial price exposure for their withdrawals. This occurs irrespective of what contract price a market participant has paid for the gas it injects. Under such circumstances, there are no grounds for compensation because the market participant was injecting gas into a Gas Market to protect its financial exposure. This may also occur if the party injecting gas into a market is hedging against a short derivative position. In this situation, any compensation claims should consider all physical and financial hedging positions when assessing whether the claimant has incurred an actual loss. Brickworks strongly disagrees with any suggestion that the APC should increase. Any potential increase of the APC will not increase the net contribution of gas supply into Gas Markets.

3.5 The bounds on parameter settings	We disagree with the inclusion of the below assumption on the basis that GPGs can source gas from the Gas Supply Hub or could fuel switch, and do not have to rely on the DWGM or STTMs to source gas: - "APC should not be set so low as to exacerbate issues by having supply withdrawn from the gas market or creating bigger issues in other markets (e.g., due to APC being too low for GPGs to be able to source gas)." As per our comments for 2.4.7 and 2.5.1 above, AEMO should consider the need to raise a rule change request to change how the APC operates across the Gas Markets.
4.2 Efficiency vs market risk	Large gas consumer demand is sensitive to price and, as evidenced by the mass demand destruction currently occurring in Europe, gas demand will significantly decrease if extreme gas costs are passed through (either by direct spot market price exposure or from increased forward contract prices). Any modelling must consider that prices above the current APC would lead to significant gas demand destruction (possibly permanently). As described in our cover letter, the APC has no impact on the net gas supply contribution to the Gas Markets. LNG exporters have made commitments to the Federal Government under the Heads of Agreement that they will supply the Gas Markets and the APC is irrelevant to new gas supply projects. The current gas supply crisis necessities a long-term solution to urgently develop new gas supply projects to supply the domestic market. 500 days seems to be an artificial number that is not justified in the discussion paper. We suggest modelling include a range of loss profit days that are lower than 500 days, given the extreme market outcomes and the collapse of several small energy retailers during winter 2022.
5 Proposed Solution Methodology	We do not believe any modelling can be conducted while the east coast is experiencing a gas crisis. The LNG exporters have made commitments to the Federal Government under the Heads of Agreement to supply gas to prevent a shortfall in the Gas Markets. While the current state of the market exists, the gas parameters do nothing to influence the overall gas supply/demand balance. Any market simulation is purely theoretical and does not represent real-world outcomes because the gas supply response does not occur as

	simplistically assumed in the methodology. The results of any of the proposed scenario modelling is meaningless. The modelling does not accurately reflect the potential for significant demand destruction of large gas consumers, and no attempt is proposed to source this information for large gas users under a range of contracted status scenarios (eg fully contracted to maximum load, contracted to average load, partially contracted, uncontracted).
5.5 Market simulation	LNG exporters have made a commitment to the Federal Government under the Heads of Agreement to supply gas to Gas Markets to avoid any supply shortfall. Therefore, the export demand curve is irrelevant as including it in the modelling implies that the LNG exporters will not fulfil their domestic supply commitment. Further, all supply curves should assume that balancing gas to the Gas Markets is supplied by LNG exporters as per their supply commitment LNG imports should not be included in the modelling. There is not a single buyer currently signed to any proposed LNG import terminal. No export or import bids should be included in the modelling, as LNG exporters have committement to supply the domestic gas for sufficient gas to avoid any potential gas shortfall.
5.6 Representative market participants	The inclusion of GPG should also consider their ability to fuel switch to alternate fuels during a short-term gas shortfall scenario. Industrial users exposed to extreme market prices should be assumed to voluntarily curtail demand or fuel switch as an economically rational response to avoid incurring extreme business losses.
5.7 Sensitivity Analysis	Given that LNG exporters have committed to the Federal Government to supply sufficient gas to the domestic market to avoid any potential shortfall, a reduction in the supply curve will not occur because domestic supply from LNG exporters will increase to offset any reduction by a domestic gas producer. The proposed reduced supply curve scenario should not be considered.

5.8 Calculating market efficiency	Further clarification on this logic needs to be provided by AEMO, specifically the interaction AEMO is assuming between a contract price and the market price. Market participants are only exposed to high spot prices to the extent that their injections are lower than their withdrawals. Where injections are equal to withdrawals, the market participant is indifferent to spot price outcome. Where injections are higher than withdrawals, the market participant favours high spot prices to the extent that they have market power to achieve this outcome. If the market participant is a large consumer, they can voluntarily curtail their demand or fuel switch to physically manage exposure to extreme spot price outcomes.
5.9 Calculation of acceptable risk	Refer to our comment related to large gas consumers under section 5 above.
5.10 Investment and the grid of gas market parameters	We strongly disagree that the assumptions reflect reality. Gas parameters do not influence LNG exporters supplying gas or developing new gas projects. Refer to our comments on this issue in our cover letter.
6.6 Investment Cost Data	We strongly disagree with incorporating a possible LNG import terminal without a single consumer signed to the project into the modelling. The modelling should incorporate the cost of developing gas within Australia for domestic consumers. We suggest the proposed Santos Narrabri Gas Project or new QLD CSG projects (eg Senex has announced intentions to develop new projects) are the appropriate reference point for investment costs and long-term contract gas prices.

6.7 The grid of gas market parameters	The current grid of gas market parameters is biased towards only increases to the existing levels. The grid should include scenarios on decreasing the existing levels.
	
	Lower parameter values should be included, specifically:
	- DWGM
	  o MPC $200/GJ, $300/GJ, $400/GJ.
	  ▪ We do not agree with $800 or $1000 being modelled.
	  o APC $20/GJ, $25/GJ, $30/GJ, $35/GJ
	  ▪ We do not agree with $60 or $80 being modelled
	  o CPT each APC scenario x 35 intervals
	- STTMs

		○ MPC $200/GJ, $300/GJ ▪ We do not agree with $800 being modelled. ○ APC $20/GJ, $25/GJ, $30/GJ, $35/GJ ▪ We do not agree with $60 or $80 being modelled ○ CPT each APC scenario x 7 days
Appendix A Proposed Scenarios		We support the detailed comments made on the proposed scenarios by the Energy Users Association of Australia.