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By email: [GWCF\\_Correspondence@aemo.com.au](mailto:GWCF_Correspondence@aemo.com.au)

Dear Mr Stevens,

## **Gas Market Parameter Review 2022**

CSR Limited (CSR) appreciates the opportunity to respond to AEMO's consultation on the review of gas market parameters 2022.

CSR is among Australia's most trusted and recognised brand names in providing building products for residential and commercial construction, with a portfolio of leading brands. CSR operates manufacturing facilities and has a strong distribution network to service customers across Australia and New Zealand. CSR is a wholesale Market Participant in both gas and electricity markets and has retail energy contracts for smaller sites.

Following the events of winter 2022, a high level of disorderly outcomes was observed in the gas markets and there are some key learnings to be taken from this:

- To the extent that one gas market/hub is administered it is appropriate to administer all gas markets (including the Gas Supply Hub);
- The cumulative price threshold should be consistent between the DWGM and STTM (i.e., the average price that will trigger an administered price must be the same in both markets);
- A lower level of maximum price cap is appropriate to consider given the outlook for sustained high prices (i.e., investment decisions are easily supported by these high prices);
- Any potential for arbitrage between domestic and international markets must be minimised (i.e., the smaller domestic markets should not be supporting supply to international markets);
- The level of administered price cap in gas markets must be set lower than the assumed \$/MWh equivalent in the NEM;
- Impacts on consumers must be considered.

The underlying market dynamics must also be considered when undertaking this review. There are a number of challenges facing buyers in the gas markets such as:

- Increased costs for flexibility in supply agreements;
- Fewer supply options available, resulting in less diversity;
- The likelihood of a supply interruption resulting in participants needing to purchase from spot markets at elevated prices;

- The regulated gas markets and their associated parameters were originally designed to facilitate competition in the interest of consumers, having regard to where the majority of the gas demand was at the time. With the linkage to LNG export markets, the majority of gas demand is now outside of the gas markets but has the ability to heavily influence domestic outcomes. This external influence has created abnormal distortions in the domestic gas markets.

## Responses to questions

1. Do you have any comments on the appropriateness of the calculation of acceptable risk?

The paper assumes that participants will be protected by long term arrangements that fix the price paid on the contracted portion of their gas consumption. The calculation should consider the scenario where an interruption impacts on a number of participants resulting in those participants being exposed to spot prices for the duration of the scenario.

It's possible that a level of risk defined as 500 days lost profit is no longer suitable given the large increases in underlying prices since this was defined in 2013.

2. A range of scenarios to be studied are listed in Appendix A. Do you think any major scenarios are missing, or that any scenarios proposed are not relevant?

Scenario 5C should be in the Progressive Change and not the Step Change given it is proposed for 2023 and we are not yet in a Step Change scenario.

Scenario 6A and B are better suited to Progressive Change otherwise the scenarios are too unlikely to occur (i.e., Step Change and High levels of LNG are both low likelihood scenarios).

3. Are there any artefacts of the modelling approach that need to be further considered or are causing concern?

The modelling approach should consider AEMO's powers and the likely scenario that interventions similar to 2022 will occur. Given the proposed expansion of AEMO's powers (contracting storage rule change and the broader regulatory package to increase AEMO's functions), these new powers should be included with appropriate assumptions.

4. Do you agree that the cost of investment should be based on an LNG import terminal or some other option?

It's not unreasonable to use an LNG import terminal based on the historical assumption. The limitation is that any type of high-cost investment is not likely to occur, and therefore it might be more appropriate to look at the level of sustained high prices and the potential for demand destruction in determining the cost of investment (i.e., it is likely that gas users will fuel switch or cease to operate).

Prices are significantly higher, resulting in high levels of profits to gas producers, and these prices would normally be enough to bring additional gas to market if the regulatory environment allowed for it.

7. Do the range of the grid points seem reasonable?

An aligned CPT should be considered, e.g., \$280 in the STTM with \$1400 in the DWGM (i.e., average price of \$40 across the time horizon). Given the lack of flexibility/diversity in contracting options, and limited ability to hedge against a supply interruption, it is appropriate to set the CPT at a lower level.

Administered prices in excess of the proposed NEM administered pricing should not be considered given the distortion that can occur.

The role of the maximum price in gas markets plays a role in how much risk a buyer of gas needs to manage, and high underlying prices would support investment for a producer of gas. Given this, lower maximum prices should be considered.

It isn't necessary for gas price parameters to be aligned to the international markets, separate measures should be in place for this such as the ADGSM and GSG.

## Summary

The market price caps are already at levels that are well above efficient levels, and other external factors are key reasons restricting investment. The reduced gas supply available to the market (not a reluctance of buyers to purchase) further increases the risk to buyers as they are forced to be exposed to higher spot prices.

At times of stress in the domestic gas markets, more focus must be on ensuring that gas is made available and additional pressure is not placed on these markets. To the extent that unrealistic volumes can be sourced from the domestic markets this reflects a flaw in the design and highlights the mechanisms aren't working. Gas sold outside of the STTM and DWGM is not at a capped price, meaning there can be incentives to purchase gas from an administered market to sell to counterparties willing to pay more for it. While these types of shortcomings of the current arrangements might be beyond the scope of the parameter review, they should be highlighted by the review for further consideration.

The role of administered prices should not just consider the efficiency of market outcomes. Energy markets are heavily regulated given the important strategic role they play in supporting the domestic economy. Broadly speaking, the gas markets are mechanisms that allow competition to exist for the benefit of consumers. These markets have been distorted due to the impact of linkages to international markets, where the domestic market now represents a relatively small proportion of the gas supply.

There are some elements of the parameter review that can assist in addressing the current shortcomings to limit distortions in the regulated markets:

- The Gas Supply Hub should be in scope of the review;
- Lower price points for the MPC, APC and CPT should all be considered;
- Alignment of administered states and CPT triggers.

Separate to this review additional measures are required, and this review has an opportunity to highlight some of the potential measures that require further assessment.

Sustainable energy prices are a key component underpinning Australia's economy, and it is important to recognise the role of the east coast gas markets in supporting domestic competition, noting that a majority of the gas supply is controlled by a small number of participants. Long-term high gas prices are likely to have a detrimental impact on consumers and the Australian economy, and the parameter review should aim to minimise this detrimental impact.

If you would like to discuss this submission, please contact me at [rflood@csr.com.au](mailto:rflood@csr.com.au).

Your Sincerely,

Robbie Flood  
Energy Manager, CSR Limited

