



Response template for the East Coast Gas System (ECGS) Guidelines Consultation

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Review comments submitted by: Origin Energy

Confidential: No

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Topic	Response
General comments	<p>As noted in our response to the initial reform proposal, Origin has material concerns around the appropriateness of the Australian Energy Market Operator (AEMO) participating in a market it is responsible for operating. This is largely because 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 distort efficient market outcomes and reduce participants' commercial incentives to manage their own risk. The Guidelines have a crucial role to play in this respect, given they will govern the operationalisation of AEMO's new function. At a high-level we consider the requirements set out in the Guidelines should ensure:</p> <ul style="list-style-type: none">• AEMO interventions (directions or trading) are used as a last resort, with the market given adequate time to resolve any issues prior to active involvement by AEMO;• any procurement by AEMO of gas / services is done so on a competitive basis; and• any actions taken by AEMO, and the associated costs are transparent to the market. <p>It is in this context that we have comments on aspects of the Guidelines below.</p>

<p>AEMO's trading function – principles</p>	<p>We are supportive of including an overarching set of guiding principles to govern AEMO's trading function, as set out in Section 5.3 of the Guidelines. Our view of several of the key principles is noted below.</p> <ul style="list-style-type: none"> • AEMO states its <i>preferred trading method</i> is to <i>procure services from industry rather than to undertake purchases / sales of gas</i>. We support this approach and consider it will assist with minimising the level of potential market distortion that could otherwise arise through AEMO's direct trading in the market. • AEMO notes it will consider <i>whether the gas or service it is seeking to trade or procure is likely to be provided by market participants without AEMO intervening</i>. This principle should be strengthened to explicitly outline the trading function will only be used as a last resort measure where industry has been given a reasonable period of time to respond to the threat and industry response is unlikely. As we noted above, this should be a core principle of the framework and reflects the intent of refinements made to the Draft Bill outlined by Energy Ministers in the February 2023 Information paper.¹ • AEMO explains that <i>where it procures services from industry this will be done on a competitive and transparent basis</i>. We consider this principle could be broadened such that where AEMO exercises <i>any</i> of its trading functions it will do so on a competitive and transparent basis. In relation to this, we also recommend amending the language in Section 5.9 to state that AEMO <i>will inform industry, where appropriate, on the manner of its trades</i> – this is necessary to ensure the market has clear visibility of traded prices and quantities.
<p>AEMO's trading function – practical considerations</p>	<p>We have identified a number of practical matters that we consider require further clarification in the Guidelines.</p> <ul style="list-style-type: none"> • AEMO should provide detailed examples of market situations / scenarios that demonstrate when and how its trading function (and its associated approaches) could be used. These examples would play an important role in helping industry to understand how AEMO's new function will operate in practice and the conditions that could lead to AEMO intervention. • It is crucial the guidelines explain how AEMO would allocate gas purchased to prevent a shortfall. Would AEMO directly sell gas to those participants identified as holding a short position or would AEMO simply offer that gas into the STTM / DWGM at zero cost? If the approach depends on the market / system circumstances, AEMO should outline relevant considerations.

¹ Energy Ministers, AEMO East Coast Gas System Framework - Information paper, February 2023, p. 11-12.

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| | <ul style="list-style-type: none">• Further guidance on the contractual arrangements AEMO will rely on to purchase / transport gas is required. Will AEMO seek to negotiate and establish Master Bilateral Gas Supply Agreements with counterparties? Or is AEMO expecting all counterparties to agree to its standard terms? |
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