



11 April 2016

John Pierce  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

## REVIEW OF THE VICTORIAN DECLARED WHOLESALE GAS MARKET

Origin Energy Limited (Origin) welcomes the opportunity to contribute to the Australian Energy Market Commission's (AEMC) review of the Victorian Declared Wholesale Gas Market (DWGM).

The proposed reforms would require a significant change to the current DWGM design and as such the case for their adoption will need to be clearly demonstrated. While Origin agrees with the overall intent of the AEMC's reform package, more time and analysis is required to fully consider the potential impacts and to discern the magnitude of any net benefits.

The Discussion Paper delves into some level of detail in describing the various design elements of the proposed package. Nevertheless, more is needed if market participants are to be in a position to make an informed decision. As a starting point, Origin suggests that it would be useful if the AEMC provides greater clarity in its final report to the Victorian Government on how the policy reforms are expected to lead to an improvement in market efficiency. This could involve a discussion on:

- **The shortcomings in the DWGM and how the various new design features are expected to address these.** This would assist in demonstrating the potential tangible benefits of the proposals. It is possible that certain elements of the AEMC's package have been put forward not necessarily in response to any significant deficiency in the current market, but rather because they are seen to be superior to the current arrangements and could result in more efficient market outcomes. If this in fact the case it would be helpful to distinguish these areas from those that may require urgent attention. For example while we agree that there is merit in exploring the proposed entry/exit system of capacity rights, the urgency of this work is likely to be dependent on the adequacy of the current arrangements for pipeline investment. It is not clear that significant issues regarding investment in the DWGM have been identified.
- **The extent to which any shortcomings in the DWGM can be addressed through a more incremental and targeted approach.** The AEMC has stated that the primary purpose for initiating the reforms is to facilitate the development of financial products. Origin supports this objective, but considers that there is still an outstanding question as to whether this can be achieved through adjustments to the current market design. Origin would therefore welcome a more thorough discussion on the underlying issues that have resulted in the lack of a vibrant derivatives market in Victoria. It is our understanding, that a primary issue is the disconnect between the delivered price of gas (which can include various ancillary payments and uplift charges) and the market price.

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Again while Origin's view is that there could be some merit in implementing exchange based trading, a key consideration is likely to be whether this will allow for a more accurate market price which could serve as the basis for the development of financial products. Much is likely to be dependent on other factors including the effectiveness of the balancing regime and the robustness of congestion management in the market.

- **Whether the AEMC is proposing that the reform package will need to be accepted in its entirety.** The package of reforms is a comprehensive one, and it is unclear if the AEMC is proposing that it will need to be accepted in its entirety (for the intended outcomes to be realised), or if there is scope for only some measures to be implemented or for there to be a staged approach.

### Next steps

While the AEMC's Discussion Paper sets out a blue print of a potential new design for the DWGM it might be premature to immediately progress to further detail design work before a clear basis for the reforms has been established. Origin notes the compressed timeframes in which the review process has taken place, and as part of its report to the Victorian Government, the AEMC could recommend that additional time is now allocated for this work to be completed.

Once clear areas of focus have been established, a governance and implementation approach similar to that which has been proposed under the broader east coast gas market review could be applied to the DWGM reform process. That is a broad industry working group (s) with appropriate regulatory oversight could be given carriage of refining, testing and ultimately implementing the policy package.

If you wish to discuss any aspect of this submission further, please contact me at [steve.reid@originenergy.com.au](mailto:steve.reid@originenergy.com.au) or on 02 9503 5111.

Yours Sincerely,



Steve Reid  
Manager Wholesale Regulatory Policy