



30 November 2012

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AGL Submission
Reporting triggers for significant price events in the STTM

Dear Jeremy,

I refer to the AER's issues paper on reporting triggers for significant price events in the STTM and offer AGL's responses to your consultation topics.

Consultation topic #1

The AER seeks comments on the factors the AER should have regard to in setting the triggers. In particular, the AER is interested in understanding which price variations have the greatest impact on Trading Participants' ability to manage financial risks (i.e. MOS variations vs. variations in the primary market).

The single most important variable in AGL's view would be the *ex ante* price. Whilst MOS is a feature of the market and potentially can impact the exposure of trading participants, it should be noted that participants are in a position to manage exposure to MOS by forecasting more accurately (thereby reducing dependence on socialised balancing gas) and by making MOS offers to cover their likely exposures.

Consultation topic #2

The AER seeks comment on what constitutes a significant variation between D-2, *ex ante* and *ex post* prices, and whether the selected price triggers would be an appropriate threshold for reporting.

In terms of the comparisons that the AER is proposing to make between *ex ante* price and the D-2 price or the *ex post* price, AGL would suggest that perhaps a \$10 threshold may be more appropriate. A \$7 trigger may be breached when demand or supply conditions on the day vary

significantly from expected conditions. As this outcome should not be unexpected in gas markets, particularly when weather or unforeseen outages play a role, a higher threshold may capture the more unusual confluence of events and circumstances.



Consultation topic #3

The AER seeks comment on whether a trigger for ex ante, ex post based price reporting should be based on:

- a daily price;
- a price compared to a rolling average reference price; or
- a combination of both.

The AER also seeks comment on appropriateness of the \$20/GJ trigger threshold.

AGL supports the daily price option rather than a relative price comparison. We are also of the view that a \$20/GJ threshold is appropriate to start with. Should experience prove otherwise, there is always the avenue to reset this trigger.

Consultation topic #4

The AER seeks comment on an appropriate level of the threshold for reporting on MOS service payments.

We agree with the AER's recommendation that \$250,000 is an appropriate threshold for reporting. We might add that a periodic resetting of this threshold to reflect CPI movements or other factors that might impinge on the price of gas.

Consultation topic #5

The AER seeks comment on whether any other triggers should be adopted.

We agree with the AER's analysis and conclusion that contingency gas events and capacity payments should not be a trigger for a significant price variation. Contingency gas events, when they occur, will be given adequate coverage from a number of perspectives.

Should you require any further information in relation to this, please feel free to contact me on (03) 8633 6239.

Yours sincerely,

George Foley
Manager Gas Market Development