



AGL Energy Limited	
T 02 9921 2999	Level 24, 200 George St
F 02 9921 2552	Sydney NSW 2000
agl.com.au	Locked Bag 1837
ABN: 74 115 061 375	St Leonards NSW 2065

Department of Climate Change, Energy, the Environment and Water

Submitted via email: GAS@dcceew.gov.au

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Dear Sir/Madam,

Reliability and supply adequacy framework for the east coast gas market system

AGL Energy (AGL), appreciates the opportunity to comment on Stage 2 of the East Coast Gas System reforms initiated by Energy Ministers. AGL is a leading integrated essential services provider, with a proud 185-year history of innovation and a passionate belief in the progress of communities and technology that can assist communities. We deliver 4.2 million services of gas, electricity, and telecommunications to our customers across Australia. AGL is focussed on ensuring it can provide continuous and affordable gas supply to its residential, wholesale and business customers.

The east coast region of Australia has been experiencing a fundamental shift in gas supply and demand over the last few years. Despite gas forecasts highlighting rapidly decreasing supplies in the southern region, some state governments have refused to approve new gas projects or otherwise not supported proposed projects, exacerbating this supply issue. While AGL acknowledges that the imperative to reduce emissions must be considered when developing gas policy, governments must have a key role to play in supporting the role of gas in the transition story, highlighting the forecast trajectory for possible replacement gas sources for commercial and industrial applications, and the transition to electrification for residential users.

AGL has made its commitments to decarbonise, but there is a role for governments to provide further information on sectoral decarbonisation pathways which closely consider the role that gas will play in Australia's path to net zero. In the absence of this longer-term direction, with appropriate supporting policy settings, the east coast gas system is likely to continue to experience challenges. These challenges are better faced through well-considered long-term policy rather than government interventions that react only to short-term price and supply concerns.

Although the numerous government-led interventions into the gas system in the last few years have been well intentioned, these regulatory interventions do not address the underlying issue that without new investment in gas supply, and in the absence of much more rapid reductions in customer demand, there is likely to be tight supply and high prices. The gas transparency measures, stage 1 of the east coast gas system reforms, the emergency price cap and the code of conduct are either impose direct price controls or additional disclosure obligations; none are measures that could enhance or encourage new supply into the market. Depression of natural price indicators will remove investment signals which in turn discourages producers from investing in exploration and production activities. The adoption of many of the mechanisms proposed in the consultation paper will lead to unplanned demand destruction, and the suppression of market signals, as they do not address the underlying supply problem.

AGL's comments on the specific mechanisms explored in the consultation paper are listed below:

Reliability Standard: AGL understands that a reliability standard may assist with monitoring and objectively identifying supply adequacy threats over the medium and long term, but it may also hinder investment by cutting across investment timelines if not designed with these in mind. For example, the reliability standard may only provide a five-year outlook of the east coast gas system and the supply gaps, but producers or an LNG import project require a 10-year commitment to underwrite their investment.



Designing a reliability standard for gas is far more complicated than for electricity and requires substantial time and consideration to ensure that the product is actually useful to participants, gas markets and consumers. An annual approach, such as total unserved energy or the gap analysis used for the ADGSM is problematic as overall annual supply may be adequate to meet total annual demand but remain tight during peak periods in some regions, especially the southern states. An N-1 infrastructure approach (as used in AEMO's LOR framework) is also challenging as the concentration of production and transportation means most gas markets are supplied by one or two key pieces of infrastructure and so the market is likely to be at an equivalent LOR 2 consistently. If a reliability standard were to be developed, AGL requests that the development is given adequate time and occurs in collaboration with industry. AGL also suggests that like the reliability standard in electricity, any gas standard be set by an independent body with strict governance protocols.

In addition, a reliability standard is a useful tool when used to indicate supply shortfalls or gaps, but AGL is concerned that it will primarily be used as an instrument to trigger other intervention mechanisms that will not address the supply constraints in question. For example, if the reliability standard triggered the use of a reliability and supply adequacy tool, which would then force gas peaking generators to contract into an already tight market or risk severe penalties when they fail to secure supply. Forcing contracting in an illiquid market will not help gas markets and in the case of the example described above, may force gas generators to exit early leading to increased uncertainty and system security concerns in the NEM.

Short Term (ST) and Medium Term (MT) PASA and seasonal PASA reporting: AGL considers that it would be prudent for AEMO to produce a PASA report as AEMO is already being provided the underlying information through the Stage 1 ECGS reforms and the Gas Transparency Measures that were introduced earlier this year. AGL considers that a seasonal PASA focused on winter would be the most useful outlook as the GSOO already provides a 12+ month view. Market participants could utilise the seasonal PASA to minimise the effect of any forecast market shortfalls or constraints.

Threat Signalling Mechanism: AGL considers that there would need to be a more robust cost benefit analysis done on a threat signalling mechanism to more adequately determine whether it would be useful or not. If there were to be a threat signalling mechanism developed AGL would suggest that it is essential that there be an automatic link with the NEM, as the NEM and gas markets are so interrelated with the increasing reliance on gas fired generation for system security.

Advance Notice of Closure: AGL believes that there would be no value gained by including an advance notice of closure requirement for gas infrastructure. Gas fired generation already is required to provide notice of closure under NEM rules and other forms of gas infrastructure would naturally reduce their contracted availability/capacity before any closure, which would provide the market with some notice of an impending closure.

Reliability and Supply Adequacy Obligation (RSA): AGL is very concerned that implementing a contracting obligation in an illiquid market where there are known significant supply shortfalls would lead to retailers exiting the market as they cannot fulfill the obligations imposed. The Retailer Reliability Obligation (RRO) instrument in the NEM has not been successful in providing investment signals or contractual reliability certainty in the NEM so it is difficult to see why such a mechanism would be more successful in a very different market, especially one where supply is not instantaneous nor is demand for GPG simple to forecast. AGL strongly suggests that this mechanism not be considered for the east coast gas system as it not an appropriate mechanism nor is it likely to solve the underlying supply shortfall issue in the short, medium, or long term.

Administered demand response mechanism: AGL expects that only a small number of customers may be suitable to participate in a demand response mechanism. However, we support considering this further as it may assist to have a register of demand response participants or a panel who could provide relief from demand on peak days. AGL looks forward to subsequent consultations providing more detail on the practicalities of this mechanism.

Supplier of last resort mechanism: This mechanism is once again a band aid solution that does not address the underlying gas supply issue across the ECGS. If customers and retailers are unable to secure supply on normal commercial terms how will AEMO be more successful in securing supply in an increasingly tight market? AGL also would like to understand that if AEMO is contracted to secure reserves whether AEMO would then contract to utilise storage facilities to store such reserves and in so doing would reduce commercial availability of storage facilities to market



participants. There are very few gas storage facilities within the East Coast and market participants would like to ensure that these facilities are available for participants to contract and use.

The east coast gas system has undergone considerable reform in terms of transparency and reporting and much of the information discussed in the consultation paper is already available on the GBB. In considering these various mechanisms, AGL encourages Energy Ministers and policy makers to take the opportunity to consider what information market bodies fundamentally need to perform their functions and what the most effective way to collect and collate this information is.

If you have any follow-up questions on this submission, please contact Marika Suszko at msuszko@agl.com.au.

Yours sincerely,

Liz Gharghori
Acting Senior Manager, Wholesale Market Regulation