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To Whom it May Concern,

RE: Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions

AGL welcomes the opportunity to comment on the proposed extension of AEMO's East Coast Gas System (ECGS) reliability and supply adequacy functions. We recognise the Government's objective to address projected structural supply shortfalls and to ensure reliable gas supply for households, industry and gas-powered generation, particularly where investment may not occur in time without intervention.

AGL agrees that the central challenge identified in the Consultation Paper is the growing difficulty in securing contracts of sufficient term and scale to provide proponents with the long-term revenue certainty required to proceed with investment. Heightened uncertainty around long-term demand, policy and regulatory settings has contributed to shorter-dated contracting, even where projects are otherwise commercially viable.

AGL supports the principles Ministers have articulated to guide any extension of AEMO's powers—that any intervention should operate strictly as a last resort, preserve incentives for market-led contracting and investment, minimise costs to consumers, and be subject to strong Ministerial oversight and legislative guardrails. These principles are essential to maintaining confidence in the gas market and supporting efficient private investment.

Consistent with this framework, AGL considers the most effective and least-distortive role for government is to complement the market by addressing the specific long-term contracting ("tenor") gap that can prevent otherwise viable projects from reaching final investment decision. Where projects have secured meaningful short- and medium-term commercial commitments but face residual uncertainty beyond the expiry of those contracts, there may be a case for targeted, tail-end underwriting limited to the post-contract revenue risk, rather than an enduring mechanism that poses the risks identified below.

A narrowly scoped, back-end support mechanism of this kind would preserve early-mover incentives, ensure private capital bears risk to the greatest extent possible, minimise consumer exposure, and better align with the intended "last-resort" purpose of the framework.

AGL does not support the Government's proposed new Last Resort Investment Support (LRIS) powers and design as currently proposed.

In our view, the currently proposed approach goes beyond addressing the identified contracting barrier by positioning AEMO as an active participant in procuring and underwriting supply and infrastructure. This risks weakening market incentives, increasing investment uncertainty and undermining confidence in the neutrality of AEMO's core planning and operational functions.



AGL strongly supports measures that reduce information barriers and improve investment signals, including the proposed extension of the Gas Statement of Opportunities (GSOO). Strengthening transparency and market signalling should be the first-line response to emerging reliability and adequacy risks, ahead of any consideration of financial intervention.

We further submit that any additional regulatory changes should not commence until the Stage 2 Reliability and Supply Adequacy reforms currently progressing through the AEMC process are finalised and implemented, and the full outcomes of the Gas Market Review are known. Understanding and providing for the consequences of interconnected reform is critical.

AGL's submission therefore focuses on how the Government's objectives can be achieved through a tightly designed, market-complementary approach that addresses genuine contracting barriers while preserving market discipline. We welcome continued engagement with the Department and Energy Ministers on the design of a framework that reinforces, rather than replaces, market-led solutions.

Role for Government in Long Term Investment

A constructive role for government in supporting long-term investment in infrastructure is to help address the narrow set of risks that the private sector is structurally unable to manage, whilst avoiding any model that competes with, substitutes, disincentivises or displaces private capital.

Rather than operating as a parallel investment channel, government involvement should resemble a tightly scoped version of the CIS-style approach which is targeted, limited in remit and expressly designed to complement commercial decision making. This requires leveraging a non-competitive principle, where market participants are required to deliver all they reasonably can to support their customers and investments, and where a clearly demonstrated gap remains. This is important to ensure that government funding does not freeze market led development and inadvertently become a subsidy to infrastructure providers at the cost of consumers or taxpayers by simply bidding up prices on projects that would otherwise occur and/or substituting the most efficient solutions with more expensive and less valuable projects. Framed in this way, government intervention can strengthen the investment environment without altering market incentives or discouraging early mover commitments.

A narrow, complementary mechanism would also provide governments with a clear pathway to assist proponents in navigating long term investment challenges without reallocating commercial risks away from developers. A key challenge that may create barriers to efficient investment is the tenor gap between the length customers are able contract and projects need for long term certainty, as described in the NEM wholesale market settings review. The high government policy and technology uncertainty in relation to long term domestic gas demand exacerbates the risks for investment in gas infrastructure.

By reinforcing, rather than replacing market led investment, the government can assist in unlocking projects that are fundamentally viable, but constrained by discrete barriers that the private sector cannot fully bridge. This proposed approach retains the competitive neutrality of the open market and ensures that government involvement is genuinely catalytic. Government intervention in this manner should only be considered once private sector investment has been secured to the extent to which the market will tolerate.

Misaligned Incentives and Risk of Investment Crowding Out

The Government proposes that extending AEMO's powers would "help address projected structural shortfalls" by enabling intervention before market responses materialise. However, the draft rules create strong incentives for participants to avoid making investment decisions and instead wait for AEMO to identify and provide support to particular projects.

Under the proposed framework, AEMO would:



- Identify supply side projects under expanded GSOO requirements (Rule 135KBA).
- Gather information on supply side projects under expanded GSOO requirements (Rule 135KBA).
- Conduct EOIs and tenders for LRIS support (Rules 718–724).
- Establish support contracts with guaranteed revenue outcomes (Rule 726).

This shifts investment risk from proponents to consumers, who are inherently poorly placed to manage it. Early mover investors who traditionally carry permitting, financing, and market risk are disadvantaged and discouraged from undertaking market lead investment. Simultaneously it rewards late stage entrants who wait for AEMO involvement.

The likely outcome is that private capital becomes more hesitant, and LRIS rapidly transitions from emergency lever to routine infrastructure delivery mechanism.

The market does respond and can be complemented with a tail-end risk sharing tool

A central premise in the Consultation Paper is that the market is ineffective in addressing structural supply shortfalls and therefore enhanced intervention powers are required, as the market may not meet its own needs.

In contrast to this, for more than a decade, AEMO have periodically forecast significant shortfalls across the east coast gas market, often years in advance. Yet in each instance, new supply and infrastructure projects are progressed, contracting adjusts and infrastructure is expanded or is reconfigured. The market in each instance has responded without the need for government underwriting.

This reflects the intended market dynamic: emerging gaps signal commercial opportunities, prompting investment and contractual responses that close those gaps. In this sense, the cycle of forecast, response and adjustment is not a sign of market failure but a core feature of how the market is designed to operate.

By way of example, in February 2026 AGL and Esso announced the execution of a 40PJ, 5 year gas supply agreement commencing in 2028, which is evidence that market is securing gas supply to meet customer demand without intervention.

By introducing a long-term underwriting function, the Government risks creating a self-fulfilling prophecy, where private investors believe that their capital is less secure than AEMO-backed capital, driving proponents to delay projects until support becomes available. This weakens the incentives for producers and shippers to contract early, amplifying the very problem the last resort powers seek to solve.

Rather than operating as a front-loaded underwriting mechanism that substitutes for normal market contracting, the framework should function as a tail-end risk sharing tool that supports infrastructure proponents only after the market has allocated as much risk as it reasonably can. In a long-term gas market, characterised by structural uncertainty and overall reduction in gas demand (shaped by higher demand in peak periods), private counterparties are increasingly reluctant to extend contractual commitments far enough into the future to enable full capital recovery.

A targeted, back-end support mechanism that underwrites only the residual post contract revenue gap beyond the expiry of foundational contracts would preserve market discipline, protect early mover price signals and ensure that projects are fundamentally market led.

A tail end design allows for infrastructure owners to secure debt and reach FID based on genuine market commitments, while providing confidence that unavoidable long term uncertainty will not jeopardise capital



recovery. This approach complements, rather than replaces, market processes and ensures that government support is truly minimal, proportionate and confined to the narrow slice of risk that the market is unable to bear.

Timing Constraints Undermine Effectiveness

The Consultation Paper argues that AEMO needs earlier intervention powers to manage emerging risks. Yet the LRIS mechanism remains reactive by design, triggered only after identification of material threats via the RSA assessment and subject to Ministerial approval. In practice, major pipelines, storage and terminals require multi-year investment horizon, and an LRIS activation may not commence in a timeframe that solves for current market deficiencies.

By design, the LRIS will frequently be activated after risks crystallise. If only FID-ready projects are eligible, the mechanism risks selecting projects that were commercially marginal or uneconomic, or options that have a high cost to consumers and are misaligned with commercial fundamentals. The Consultation Paper recognises these long lead time issues, but does not reconcile with the reactive trigger structure.

Alternatively, to avoid this situation AEMO may be inclined to take action earlier. This would be at odds with the 'last resort' design element required by Energy Ministers and crowd out investment by market participants

Impact of Regulatory Instability on Investment and Contracting

A driver of contracting hesitation in the east coast gas market is the underlying policy, regulatory and development approval uncertainty. Ongoing changes to state and federal gas policy settings, evolving environmental assessment requirements, and uncertainty around the future regulatory treatment of pipeline tariffs necessarily all contribute to a heightened risk premium for developers and financiers.

These factors materially affect proponents' willingness to commit capital and counterparties' willingness to enter long-dated offtake agreements. For example, lengthy and unpredictable environmental and planning approval pathways can push project timelines beyond what buyers are prepared to contract for, while uncertainty around future revenue regulation for pipelines and storage assets makes it more difficult to assess long-term cost recovery. Improvements in policy stability and regulatory clarity could, over time, contribute to reducing some of the current contracting reluctance in the market and significantly reduced reliance on the LRIS mechanism.

Utilisation of existing tools within the National Gas Rules and GSOO Procedures

Before any LRIS intervention is contemplated, it is essential that AEMO fully utilises the suite of existing planning, information gathering and market engagement tools already embedded within the National Gas Rules framework. These tools provide structured channels for surfacing prospective supply and infrastructure projects well before any crisis or reliability threat emerges. Gas infrastructure notifications, for instance, allow proponents to flag potential developments, expansions or closures ahead of time, giving the market and AEMO visibility of upcoming opportunities and risks. Existing market sounding mechanisms, including bilateral engagement with producers, shippers, and infrastructure operators, provide an avenue to test commercial interest, identify feasible project pathways, and understand the conditions under which private investment could proceed without underwriting.

The existing suite of planning, notification and market sounding tools already embedded within the National Gas Rules provides structured and effective channels for surfacing prospective supply and infrastructure projects well before any crisis or reliability threat emerges. Gas infrastructure notifications allow proponents to flag potential developments, expansions or closures in advance, giving both the market and AEMO early visibility of emerging opportunities and risks. Likewise, existing bilateral engagement processes with producers, shippers and infrastructure operators enable AEMO to test commercial interest, understand



project feasibility and identify the conditions under which private investment could proceed without underwriting.

Expanding AEMO's role into procuring or underwriting infrastructure introduces a material conflict, as it blurs the line between AEMO's core function as an impartial system and market operator and its proposed role as a market participant. This dual positioning risks distorting investment signals and undermining industry confidence in the neutrality of AEMO's planning and forecasting processes.

Any changes to AEMO's GSOO powers should also include strong safeguards, including independent third-party oversight of key inputs—particularly gas reserves reporting. This is a function that could be taken on by a non-energy body such as Geoscience Australia or relevant state bodies, to provide unbiased and audited reserves data to the market. A credible, externally validated assessment of reserves would ensure that investment decisions, policy settings and any potential LRIS activation are grounded in rigorous, transparent and consistently verified information. This approach maintains confidence in the market framework while ensuring that any last resort mechanism operates on a sound and impartial evidentiary base.

Timing of further regulatory reform in the East Coast Gas System

These proposed reforms, whether implemented as set out by the Government or through any alternative mechanism, cannot and should not be viewed in isolation. The broader gas policy landscape is currently in a state of continual change, including the concurrent consultation on the gas market review recommendations and the development of a domestic gas reserve mechanism, and a review into AEMO governance.

When multiple, significant regulatory reforms are progressed simultaneously, each carrying material implications for investment signals, contracting behaviour and long-term market structure, it becomes increasingly difficult for industry to anticipate the eventual shape of the regulatory framework or how its components will interact. Without a clear sense of the end-state, there is a real risk of creating perverse or unintended consequences, as participants adjust their behaviour in response to uncertainty rather than underlying market fundamentals. For this reason, any new intervention should be carefully sequenced and assessed within the full context of concurrent reforms, rather than developed or evaluated in a policy vacuum.

AGL welcomes the opportunity to continue discussions with the Department, and should you have any questions or queries about the contents of this submission, please don't hesitate to contact Jordan Dodd at jdodd@agl.com.au or on 0421 418 428.

Yours sincerely,

Ralph Griffiths
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