

## **PRIORITY REFORMS FOR A MORE SECURE, RESILIENT AND FLEXIBLE EAST COAST GAS MARKET**

### **Context**

Recent events and analysis from AEMO, ACCC and the AER have highlighted the critical role the gas market plays in the energy system and key issues that are beginning to arise as the energy transition progresses. This includes:

- the growing relationship between electricity and gas markets, and how pressures in one market can impact affordability, reliability and system security in the other;
- the challenges of managing increasingly peaky demand profiles, maintaining energy system reliability and security as renewables and electrification increases, and supporting investment in critical infrastructure in the short-medium term;
- ensuring the gas market works as efficiently as possible, including the utilisation of existing infrastructure and ensuring gas flows effectively to where it is needed the most at the most affordable price.

In this context, and given the ACCC and AEMO are forecasting potential gas market shortfalls in 2023, Energy Ministers have today agreed to take a range of comprehensive actions aimed at supporting a more secure, resilient and flexible east coast gas market, including directing Officials to:

- further develop and progress a package of priority reforms to support a fit for purpose security and reliability framework to identify and respond to security of supply risks in the east coast gas market;
- develop and submit rule changes to improve the Wallumbilla Gas Supply Hub to increase flexibility and liquidity of gas markets when responding to demand and supply shocks; and
- further investigate options to extend a third party access framework for upstream gas infrastructure and gas storage facilities, as recommended by the ACCC, to ensure gas producers can access critical infrastructure.

Ministers have committed to prioritising the quick progression of measures which improve reliability and system security, while undertaking further technical analysis, stakeholder consultation and detailed policy design on more complex measures before they proceed so final reforms most effectively deliver on Ministers' objectives.

As a matter of urgency, Energy Ministers agreed to extend AEMO's powers to ensure AEMO can manage security and reliability risks across east coast gas markets in the lead up to and during winter 2023. This will provide AEMO with a hierarchy of tools to manage supply shortfalls in the east coast market in winter 2023, prior to more formal tools being designed.

Officials will also work closely with AEMO to identify additional transparency requirements to improve AEMO's ability to forecast gas supply adequacy, update the Gas Supply Guarantee (GSG) guidelines and examine options to formalise the mechanism in the rules, and do initial work to inform a formal reliability standard for the east coast gas market against which future system security and response mechanisms can be assessed and calibrated.

These measures will complement other actions individual governments are taking to address supply shortfalls, including the Commonwealth Government's renewal and review of the Australian Domestic Gas Security Mechanism and renegotiation of the Heads of Agreement with East Coast LNG exporters.

## **THE PACKAGE OF MEASURES**

### **Security and reliability of the east coast gas system**

#### **A fit for purpose security and reliability framework for the east coast gas market**

Unlike the National Electricity Market which has well established frameworks to maintain a secure and reliable energy system, AEMO has limited powers and tools to identify and respond to security of supply risks in the east coast gas market. Recent events have highlighted the utility of the voluntary Gas Supply Guarantee (GSG) framework in responding to critical system events, but have also drawn attention to gaps in the current gas security of supply tool kit. Energy Ministers have tasked officials with designing a suite of measures to address these gaps and develop a fit for purpose security and reliability framework for the east coast gas market.

Officials will bring preferred reform options from the design process back to Ministers for agreement. This set of reform options will improve the ability of AEMO, AER and gas market participants to identify and respond to emerging gas system security concerns and better manage periods of volatility. Where relevant, measures will be based on existing security and reliability mechanisms in the NEM, adapted as necessary to cater for the distinct characteristics and requirements of the gas market. This will include mechanisms which are designed to achieve the following objectives:

- Providing AEMO and gas market participants with improved visibility of operational metrics and expectations of future supply, demand and system adequacy across the gas system. This information will help AEMO forecast emerging gas supply shortfalls.
- Allowing AEMO to signal emerging gas system security concerns to the market. This will include consideration of market response mechanisms:
  - a Projected Assessment of System Adequacy (PASA) process and 'lack of reserve' framework, adapted for gas;

- a reliability standard for the east coast gas market against which system security concerns and responses can be assessed and calibrated.
- Providing AEMO with a set of system management mechanisms that operate over different timeframes, to respond effectively to a gap in system adequacy. This will include:
  - formalising express powers to convene a Gas Supply Guarantee (GSG) conference of relevant market participants and other stakeholders when system security concerns are identified;
  - enhanced powers to provide AEMO a hierarchy of management tools to manage supply shortfalls in the east coast market in winter 2023 with this measure to be fast tracked as a priority action, targeting implementation by the end of 2022 or early 2023;
  - investigating a framework to allow AEMO to manage issues prospectively, such as a gas Reliability and Emergency Reserve Trader (RERT) style framework; and
  - considering mechanisms to facilitate transport of gas and cost allocation associated with system management actions.
- Consideration of obligations on gas retailers and generators to provide information on the arrangements they have in place to meet the expected needs of their customers and actions they may need to take to meet minimum requirements including additional contracting of supply, transport or storage.
- Adapting and aligning longer-term gas forecasting and planning frameworks with the new gas security and reliability framework and proposed reliability standard.

## **Resilient, flexible and efficient east coast gas market**

### **Anonymised delivery in the Gas Supply Hub**

Consultation with industry and market bodies has identified a number of inefficiencies that, if removed, can encourage the development of more liquid and competitive gas wholesale markets.

As an initial step, Energy Ministers will submit a rule change to the AEMC to enable automated, fully anonymous trading between Wallumbilla Gas Supply Hub (GSH) participants. Fully anonymised trading will encourage more on-screen trades, a higher level of price discovery for market participants, and increase flexibility and liquidity of gas markets when responding to demand and supply shocks.

### **Harmonising prudential arrangements across east coast markets**

As an additional measure, Energy Ministers will submit a rule change aimed at harmonising prudential arrangements across the gas Short term trading markets (STTMs) in Adelaide, Sydney, and Brisbane, the Victorian Declared Wholesale Gas Market (DWGM), and the GSH.

A streamlined approach to prudential arrangements will allow participants to net their trading positions across these markets, and only require collateral to cover their net position rather than

their absolute position. Ultimately, a harmonised approach to prudential requirements for trading on these markets is expected to reduce trading costs, particularly for smaller users, and result in a more efficient and competitive east coast gas market.

## Removing barriers to supply

### Third party access to upstream infrastructure and storage facilities

Energy Ministers have agreed to examine a framework for a third party access regime for upstream gas and storage infrastructure, with a Regulation Impact Statement (RIS) process anticipated to commence in 2023.

The ACCC reported initial findings of its 2021 *Review of upstream competition and the timeliness of supply* in February 2022.<sup>1</sup> The ACCC found that a lack of access to upstream infrastructure, including gathering pipelines, natural gas processing, water treatment and compression facilities is a significant barrier that impedes competition and supply from more marginal gas fields.

As upstream infrastructure and storage facilities have natural monopoly characteristics, but are not currently subject to any form of access or economic regulation, this can result in market participants having difficulty in accessing this infrastructure. In turn, this can have broader supply implications for east coast gas supply when critical infrastructure is under-utilised.

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<sup>1</sup> ACCC *Gas Inquiry 2017-2025*. January 2022 interim report refers.