

Energy Ministers' Secretariat

Via email - gas@industry.gov.au

7 October 2022

Extension of Australian Energy Market Operator (AEMO) Functions and Powers to Manage Supply Adequacy in the East Coast Gas Market

Australian Gas Infrastructure Group (AGIG) welcomes the opportunity to provide this submission to the Extension of AEMO Functions and Powers to Manage Supply Adequacy in the East Coast Gas Market Consultation Paper.

AGIG owns gas pipelines, distribution networks and storage assets that provide services to over two million homes, businesses and large industrial customers across Australia.

As a key participant in the downstream east coast gas supply chain, we recognise the energy supply issues that occurred in mid-2022 which have given rise to this policy consultation. These include significant gaps in the supply of coal-fired electricity and subsequently a greater demand for gas as a substitute. They also include the decline in production from southern gas reserves which is predicted to become more substantial from next year.

To the extent that the energy crisis experienced has been the product of electricity shortfalls and government policies that either discouraged or disallowed gas production, it does not hold that gas infrastructure companies and our customers should incur the cost of ensuring it does not reoccur. Our business has a strong commitment to keeping costs as low as possible and as equitable as possible, and in our view this would be an unfair and inequitable outcome for consumers. AGIG is strongly of the view that any costs associated with increased reporting and compliance because of the proposed reforms should be kept as low as possible and should be paid by the entities whose actions or policies have given rise to the shortfall.

AGIG acknowledges the urgency with which these reforms are being progressed and has sought to engage fully in the consultation process. However, with respect to the very short timeframes for policy development, AGIG's submission emphasises that reforms should be as alert as possible to the market uncertainties, risks and flow-on effects that could eventuate during the reform implementation phase and beyond, some of which may not be fully known or anticipated at the present time.

Importantly the Consultation Paper does emphasise that 'these functions will aim to provide greater visibility to identify and resolve emerging issues and minimise the need for more interventionist actions' and 'that the new powers are proposed to enable AEMO to work with energy market participants to identify, signal and manage emerging supply adequacy risks across the east coast gas system.' AGIG strongly supports and encourages a transparent and accountable implementation of this aim and approach during the implementation of this reform.

In addition, transparency and accountability for the ongoing implementation of this reform would also be assisted by public release of post-incident reports by AEMO that address the steps taken to engage market responses and why it was necessary to use the new powers.

AGIG also understands the motive for additional transparency in terms of data provided by industry, however the requests for maintenance details for a 24-month horizon under broad definitions such as a 'Natural Gas Industry Facility' require further discussion. It's not clear to AGIG to what extent this might apply to gas distribution networks or if so, how it could be appropriately targeted to the vast footprint and operations of gas distribution networks. Planning details for maintenance work is not currently available for a 24-month horizon and may be subject to significant changes and uncertainty over this type of timeframe. AGIG's view is that additional costs should be minimised wherever possible, including those from increased reporting, to reduce cost burden to consumers.

AGIG has concerns regarding any future reform information requirements to provide real-time or hourly supply data on pressures, flows and heating values at the gas transmission and distribution levels given that significant investment would be required on information systems, including SCADA, and other operational and compliance-related activities across the industry. We do not believe the benefits outweigh the significant costs of real-time or hourly data provision.

Given there is potential for significant direct and indirect costs to be incurred by throughout the market, including distribution networks, a specific provision in the Bill for a cost pass through that is available to distribution networks, akin to what is included in the National Retail Law for Retailer of Last Resort events, is a worthwhile consideration.

Regarding the second stage proposals outlined for future reliability and supply adequacy reforms, AGIG is keenly interested to explore the potential for renewable gas solutions as part of the proposed demand management framework. Consideration of the role of renewable gas in providing flexible gas resources and demand response should not be underestimated given there is considerable scope for innovative cost-effective solutions to emerge that also deliver ongoing emissions reduction benefits. AGIG is well placed to advise on the scope and applicability for the flexible applications of green hydrogen through its leadership of recent innovation projects completed and under development.

In addition to the above, specific responses are provided against the Consultation Paper questions in an attachment to this letter.

Thank you for the opportunity to contribute to this consultation process. Should you have any queries about the information provided, please contact Rachel Cameron, Head of Corporate Affairs (Rachel.Cameron@agig.com.au or 0425 199 184).

Yours sincerely,

Kristin Raman
Acting Executive General Manager Strategy and Sustainability

About AGIG

AGIG is the largest gas distribution business in Australia, serving more than two million customers through our networks in Victoria, Queensland, South Australia, and several regional networks in New South Wales and the Northern Territory. Our transmission pipelines and storage facility serve a range of industrial, mining and power generation customers.

At AGIG, we are committed to sustainable gas delivery today, and tomorrow. Our Low Carbon Vision, targets 10% renewable gas in networks by no later than 2030, with full decarbonisation of our networks by 2040 as a stretch target and by no later than 2050.

We are now delivering on our vision by deploying low carbon gas projects. Our projects include:

- Hydrogen Park South Australia – A 1.25MW electrolyser to demonstrate the production of renewable hydrogen for blending with natural gas (up to 5%) and supply to more than 700 existing homes in metropolitan Adelaide. HyP SA is now operational, with plans to expand customer reach to more than 3,000 customers by end of 2022.
- Hydrogen Park Gladstone – A 175kW electrolyser to demonstrate the production of renewable hydrogen for blending with natural gas (up to 10%) and supply to the entire network of Gladstone, including industry. First blending is expected in 2023.
- Hydrogen Park Murray Valley (HyP Murray Valley) proposal – A 10MW electrolyser to produce renewable hydrogen for blending with natural gas (up to 10%) and supply the twin cities of Albury (New South Wales) and Wodonga (Victoria), with the potential to supply industry and transport sectors.

Attachment D – Extension of AEMO Functions and Powers - Stakeholder feedback template

Submission from Australian Gas Infrastructure Group (AGIG)

The template below has been developed to enable stakeholders to provide feedback on proposed amendments to the national gas regulatory framework (including the National Gas Law and associated Regulations and Rules) as outlined in the consultation paper *Extension of AEMO Functions and Powers to manage supply adequacy in the east coast gas market*. ESOM strongly encourages stakeholders to use this template, so that it can have due regard to the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. When responding to questions, stakeholders should make reference to the relevant draft Bill or Regulations or Rules if applicable.

Should stakeholders choose to provide additional feedback outside the template, they should reference the relevant question they are responding to.

A. Proposed initial reforms

In relation to the overarching functions and rule-making powers as outlined in the draft Bill:

Question 1: Do stakeholders have any comments on the scope of AEMO's new reliability and supply adequacy functions and the related rule-making powers as outlined in the draft Bill?

Feedback 1:

AGIG understands the scope of AEMO's new reliability and supply adequacy functions and the related rule-making powers outlined in the draft bill are broad and far-reaching, and this creates some difficulty in ascertaining the full extent of potential impacts on the Australian energy markets. AGIG also understands it is necessary to take this type of broad approach given the speed of implementation timeframe required. However in light of this, policy makers and AEMO will need to be very engaged and responsive to working with industry to ensure that necessary and appropriate frameworks are put in place, which can deliver effective and efficient outcomes.

Question 2: Does the definition of east coast gas system exclude anything that should come within scope of the new function?

Feedback 2:

AGIG is not aware of any relevant exclusions that should come within the scope of the new function.

Question 3: Do stakeholders consider any additional requirements should be specified in the rules in relation to the manner in which AEMO exercises its functions?

Feedback 3:

In addition, transparency and accountability for the ongoing implementation of this reform would be assisted by public release of post-incident reports by AEMO that address the steps taken to engage market responses and why it was necessary to use the new powers.

Question 4: Do stakeholders consider that AEMO should develop any specific procedures or guidelines for its new functions?

Feedback 4:

It should promptly review key procedures and guidelines, particularly to ensure that engagement channels and approaches are fit-for-purpose and meet the spirit and intent of its new powers and functions – in particular the Consultation Paper does emphasise that ‘these functions will aim to provide greater visibility to identify and resolve emerging issues, and minimise the need for more interventionist actions’ and ‘that the new powers are proposed to enable AEMO to work with energy market participants to identify, signal and manage emerging supply adequacy risks across the east coast gas system.’

Question 5: Do you think a review of this regulatory package after three years is appropriate?

Feedback 5:

Yes, given these reforms propose considerable change to the energy market, a review of this regulatory package in 3 years is appropriate.

In relation to the Transparency section – regarding the proposed additional information requirements set out in Table 1 of the consultation paper:

Question 6: Do the proposed additional reporting requirements provide sufficient daily and monthly information to enable AEMO to monitor and signal potential threats to east coast gas system adequacy over a sufficient forecast period?

Feedback 6:

While we can't provide a comprehensive view on the overall sufficiency of outlined reporting requirements, we do believe that given the broad and far-reaching nature of the potential requests there is scope to further refine and avoid unnecessary data burdens that can arise from this approach. Industry engagement will be critical to best targeting requirements and avoiding/limiting unnecessary compliance burdens.

Question 7: Do stakeholders have any comments about the proposed additional information reporting and disclosure arrangements, and related transitional timeframes?

Feedback 7:

AGIG understands the need for additional transparency in terms of data provided by industry, however the requests for maintenance details for a 24 month horizon under broad definitions such as a 'Natural Gas Industry Facility' would definitely benefit from further discussion. It's not clear to AGIG to what extent this might apply to gas distribution networks or if so, could be appropriately targeted to the vast footprint and operations of gas distribution networks. Planning details for maintenance work is not currently available for a 24 month horizon and may be subject to significant changes and uncertainty over this type of timeframe.

Question 8: Should there be any specific limits on who should be captured by disclosure obligations or ways to minimise compliance obligations such as thresholds, reporting party definitions, or links to other regulatory reporting requirements?

Feedback 8:

See Feedback 7 above.

In relation to the Transparency section – regarding the further more granular information set out in the consultation paper (subject to further consultation in 2023):

Question 9: What are your views on:

- a) The categories of information, and are they appropriate for real-time or hourly reporting?
- b) What is the optimal approach to the collection of the categories of information listed in the interests of minimising costs and ensuring efficient data transfer?

Feedback 9:

AGIG has some concerns regarding proposals to seek 'more granular' information to provide real-time or hourly supply data on pressures, flows and heating values at the gas transmission and distribution levels. This is principally due to the significant investment that would be required on information systems, including SCADA, and other operational and compliance-related activities across the industry. We do not believe the benefits outweigh the significant costs of real-time or hourly data provision.

In relation to the Signalling section – regarding the signalling framework which aims to provide a practical but flexible approach to allow AEMO to notify market participants of threats to system reliability and supply adequacy:

Question 10: What are your views on formalising and extending AEMO's ability to hold Gas Supply Adequacy and Reliability Conferences?

Feedback 10:

If the Gas Supply Adequacy and Reliability Conferences are to be formalised it is important that gas distribution networks are involved in relevant engagement.

In relation to the Directions Powers section – regarding the initial broad powers to be provided to AEMO to take necessary action to manage the risk of gas supply shortfalls in winter 2023:

Question 11: Are there particular principles which should guide AEMO’s expanded powers of direction?

Feedback 11:

AGIG has nothing to add

Question 12: Are there any other approaches that could be undertaken to elicit market responses ahead of directions powers?

Feedback 12:

AGIG has nothing to add

Question 13: How should AEMO work with stakeholders in giving directions?

Feedback 13:

AGIG has nothing to add

Question 14: Are there technical matters that should be considered in the issuing of directions powers?

Feedback 14:

AGIG has nothing to add

Question 15: Are there any entities that should not be subject to directions or certain types of directions?

Feedback 15:

AGIG has nothing to add

In relation to the cost recovery and compensation section:

Question 16: Do the proposed changes to the cost recovery framework enable AEMO to appropriately recover costs in relation to its east coast gas market reliability and supply adequacy functions?

Feedback 16:

See Feedback 18

Question 17: What costs should parties who must comply with directions be able to seek compensation for? (E.g. direct costs, opportunity costs)

Feedback 17:

All costs as outlined on page 26 of the Consultation Paper

Question 18: How should the costs of compensation be apportioned and recovered from the market?

Feedback 18:

Our business has a strong commitment to keeping costs as low as possible and as equitable as possible. To the extent that recent energy supply challenges have been the product of electricity shortfalls and government policies that either discouraged or disallowed gas production, it does not hold that gas infrastructure companies and our customers should incur the cost of ensuring it does not reoccur. In our view this would be an unfair and inequitable outcome for consumers. AGIG is strongly of the view that any costs associated with increased reporting and compliance because of the proposed reforms should be kept as low as possible and should be paid by the entities whose actions or policies have given rise to the shortfall

Given there is potential for significant direct and indirect costs to be incurred throughout the market, including distribution networks, a specific provision in the Bill for a cost pass through that is available to distribution networks, akin to what is included in the National Retail Law for Retailer of Last Resort events, is an appropriate consideration.

Question 19: Should there be financial limits on individual claims, or on claims overall within a financial year?

Feedback 19:

Financial limits should not be imposed, claims should be assessed on their merits and the financial impacts caused.

Question 20: Is the proposed \$35m initial trading allocation appropriate?

Feedback 20:

AGIG has nothing to add

Question 21: How should the trading function be funded?

Feedback 21:

AGIG does not have any specific comments on funding models, however ultimately the costs should be recovered from customers, as well as any profits that may accrue from the trading function over time.

Question 22: What principles, if any, should guide AEMO's trading functions?

Feedback 22:

AGIG has nothing to add

B. Proposed civil penalty provisions

Section 3 of the consultation paper sets out the proposed sections of the draft Bill or Rules that will be subject to civil penalty provisions and what level of penalty would apply. Please reference the specific sections of the draft Bill or Rules if you would like to provide feedback.

Feedback on proposed civil penalty provisions:

AGIG has nothing to add

C. Feedback on proposed changes to the National Gas Law, Regulations and Rules

Attachment A of the consultation paper contains the proposed regulatory amendments to give effect to the policy intent set out in the consultation paper. Please reference the specific sections of the draft Bill, Regulations and Rules if you would like to provide feedback.

Feedback on proposed changes to the National Gas Law:

Feedback on proposed changes to the National Gas Regulations:

Feedback on proposed changes to the National Gas Rules:

D. Future reliability and supply adequacy reforms

In relation to the proposed reliability and supply adequacy reforms outlined in Section 4 of the consultation paper, please provide initial feedback on the merits of these proposals, noting formal consultation will occur in 2023, when the policy design process has been further progressed.

Question 23: In your opinion, are any of these proposals more or less important to address reliability and supply adequacy concerns?

Feedback 23:

With regard to the second stage proposals outlined for future reliability and supply adequacy reforms, AGIG is keenly interested in exploring the potential for innovative renewable gas solutions as part of the proposed demand management framework. Consideration of the role of renewable gas in providing flexible gas resources and demand response should be given full consideration given there is significant potential for innovative cost-effective solutions that also deliver ongoing emissions reduction benefits.

AGIG is well placed to advise on the scope and applicability for the flexible applications of green hydrogen through its leadership of recent demonstration projects completed and under development.

Question 24: Are there any practical issues arising from any of these proposals? If so, please elaborate on your concerns.

Feedback 24:

AGIG has nothing further to add at this stage but would welcome further discussion and engagement

Question 25: Are there any other reliability and supply adequacy proposals that should be considered as part of this work?

Feedback 25:

E. AGIG has nothing further to add at this stage. General feedback on timing and next steps required

Question 26: Please elaborate if you would like to provide general feedback on the timing and next steps required regarding this work.

Feedback 26:

AGIG has nothing further to add at this stage