

Consultation – Extension of AEMO Functions and Powers
Attention: Energy Ministers Secretariat

Via email: gas@industry.gov.au

7 October 2022

Dear Energy Ministers Secretariat

RE: Extension of AEMO functions and powers in relation to the gas market

The Queensland Electricity Users Network (QEUN) appreciates the opportunity to provide a consumer perspective to the Energy Ministers' consultation on the proposed regulatory amendments to extend AEMO's functions and powers to manage east coast gas supply adequacy.

The QEUN is a consumer advocate representing small business and residential consumers with a particular emphasis on regional consumers. We advocate for affordable and reliable electricity from a resilient National Electricity Market where the pace of the transition to a renewable energy future is not at the expense of the economy, jobs or reasonable living standards.

Gas powered generation (GPG) is critical to Australia's transition to a renewable energy future.

GPG is vital if consumers are to have reliable electricity and affordable power bills.

It is therefore imperative that GPG has access to reliable and affordable gas.

The Energy Ministers' consultation seeks to legislate functions and powers that will allow the Australian Energy Market *Operator* to extend its existing function of being the market and systems *operator* to include also being a market participant.

The changes will allow AEMO to have the power to acquire time sensitive and commercially sensitive information from gas market participants - information which may not be available to the shareholders of market participant companies.

Why have Energy Ministers not investigated the option of an east coast gas reserve?

It is somewhat perplexing that Energy Ministers have opted to extend the functions and powers of AEMO without first providing a full analysis of whether an east coast gas reserve would be a better outcome for consumers and market participants.

This is pertinent as AEMO is a not-for-profit public company 60% owned by government members and 40% by industry. Government members of AEMO include the Commonwealth, New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania and the Australian Capital Territory. This consultation is being conducted on behalf of governments with a controlling interest in AEMO.

If AEMO is allowed to be a market participant in the east coast gas market this does not necessarily result in more gas for GPG or residential and industrial gas consumers. AEMO as a market participant becomes a competitor to existing gas consumers.

The extended AEMO powers and functions do not address the core issue.

The issue is east coast gas is being diverted from domestic gas consumers to the export LNG market.

The gas supply crisis is an east coast problem.

Western Australia has a legislated 15% domestic gas reserve.

As far as we can ascertain domestic gas consumers in Western Australia have been largely spared from supply problems and the surge in global gas prices caused by the Russian invasion of Ukraine. It would appear Western Australian gas consumers will not be facing a gas shortfall in winter 2023.

The benefits of an east coast gas reserve need to be urgently considered as a means of averting the forecast east coast gas shortfall.

However, another reason to urgently consider an east coast gas reserve is the emerging green hydrogen industry. Every state government on the east coast is clamouring for the crown of the green hydrogen capital of Australia.

In the near future Australian and foreign companies will need to commit to long-term offtake agreements to finance capital intensive green hydrogen gas plants. Some companies have made no secret of their ambition to become major players in the global green hydrogen market; some MOUs cover millions of tonnes of export green hydrogen on an annual basis.

Federal and state governments are enthusiastically embracing the emerging green hydrogen industry as it offers an opportunity to replace royalty revenues generated by coal and LNG.

Opinion is mixed as to when 'economic' green hydrogen exports from Australia could commence. Much will depend on factors that influence final investment decisions on green hydrogen plants such as the possible introduction of an east coast gas reserve and/or an excise tax.

Further pressure on east coast domestic gas supplies is likely to occur if an east coast gas reserve is not implemented.

Energy Ministers need to investigate if the current east coast gas shortage could have been mitigated if the Queensland Government had legislated a domestic gas reserve when the Queensland LNG industry was established over a decade ago.

Consumers need to know why an east coast gas reserve was not considered as an option to avert gas shortfalls on the east coast.

Gas quality also impacts gas adequacy

GPG needs access to reliable and affordable gas; gas that over time will change in composition from natural gas, to blended gas and possibly 100% green hydrogen post 2030.

Changing gas composition does impact on gas supply adequacy. High hydrogen blends will necessitate capital expenditure on the existing gas pipeline network to prevent hydrogen embrittlement.

Despite the role of gas quality in gas adequacy we are not aware of any government or AEMO report that details the quality of gas required by existing or proposed GPG.

The issue of gas quality was brought to the attention of consumers when the media reported the Federal Government had specified that the \$600 million Kurri Kurri gas-fired power station in New South Wales would be required to use 30 per cent green hydrogen as soon as it starts up – scheduled for December 2023 – and 100 per cent by 2030 or as soon as possible.

It is critical consumers be cognisant of the risk to GPG viability caused by the large capital investment required to convert existing gas-fired power stations and the gas pipeline network to accommodate blended gas or 100% hydrogen gas in what appears to be the near future.

Gas storage also impacts gas adequacy

The proposed changes to AEMO's powers and functions would allow AEMO to be a market participant with access to a possible \$35 million trading fund.

Being a market participant does not necessarily mean AEMO will have gas available in the event of an emergency or in stock if a forecast gas shortfall becomes an actual gas shortfall.

The issue is the capacity and location of existing gas storages and the ability to move the gas in a timely manner to where it is required.

The east coast has depleted gas fields that could be developed as gas storages.

A strategic gas reserve could be developed that could store gas in multiple locations throughout the gas pipeline network.

The strategic gas reserve could form part of Australia's national fuel reserve.

The Fuel Security Act 2021 provides a legislative framework for government to establish a national fuel reserve through an industry minimum stockholding obligation. A national fuel reserve established through a minimum stockholding obligation could be relied upon and released in times of emergencies.

We are not aware if the Fuel Security Act 2021 covers gas security.

Thank you for the opportunity to provide input from a small consumer and regional consumer perspective, especially since the emerging green hydrogen industry will be largely located in regional Australia.

Yours faithfully

A handwritten signature in blue ink that reads 'Jennifer Brownie'.

Jennifer Brownie

Coordinator

Queensland Electricity Users Network