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Reliability and supply adequacy framework – Stage 2 consultation

Attention: Energy Ministers Secretariat

The ACCC welcomes the opportunity to provide a submission to the Department of Climate Change, Energy, the Environment and Water's (the Department) stage 2 consultation on the proposed reliability and supply adequacy framework (provided in attachment A).

The ACCC supports policy measures to address reliability and supply adequacy issues in the east coast gas market. However, it is critical that the design and implementation of the measures preserve the long-term functioning of the market and, in particular, minimise:

- adverse impacts on competition
- costs to customers and
- distortionary effects.

The ACCC has reported extensively in recent years on the worsening supply outlook for the east coast gas market. We acknowledge the severity of the impacts that may arise from potential shortfalls, with supply risks elevated during the peak winter demand season. Our most recent report found that while an overall surplus is expected for 2024, winter quarters are expected to experience shortfalls if LNG producers export all of their uncontracted gas. Additionally, ongoing structural shortfalls are expected in southern states with gas from Queensland required to meet domestic demand. This worsening supply outlook will mean that AEMO is likely to play an increasingly important role in ensuring a secure, resilient and flexible east coast gas market.

In our stage 1 submission, we acknowledged the rationale for the proposed functions and powers for AEMO, but noted our concerns with the breadth of those proposed powers, the lack of guidance on how these powers would be exercised, and the absence of a methodology for and certainty of the costs of likely intervention and how the costs would be borne. The refinements made to the framework following stage 1 consultation addressed some of these concerns to an extent.

The ACCC broadly supports the proposed reliability standard and the monitoring and communication tools proposed under stage 2. However, we have significant concerns about the potential impacts on competition arising from the proposed RSA contracting obligation and the potentially distortionary impacts of the proposed supplier of last resort mechanism.

We broadly support the proposed reliability standard and monitoring and communication tools

A gas reliability standard that appropriately reflects the value that gas consumers place on reliability will be more likely to enable AEMO to objectively identify RSA threats, guide AEMO's decision making on how to respond to such threats, and support informed and efficient decision making by AEMO and market participants. This would be further strengthened by considering both the value gas users place on reliability and the costs associated with maintaining reliability at an appropriate level, given these costs will ultimately be passed on to gas consumers.

The proposed monitoring and communications tools, provided that they are appropriately tailored to the physical and operational characteristics of the gas market, should promote more timely and efficient responses to both shorter- and longer-term reliability and supply adequacy threats. The inclusion of more proactive longer-term monitoring should also help to reduce the likelihood of reactive regulatory-based interventionist tools being used.

The ACCC also considers that the proposed monitoring tools will promote gas supply transparency by complementing AEMO's existing reporting and the ACCC's ongoing reporting under the gas inquiry. The package of proposed transparency functions should allow AEMO to better monitor the east coast gas market, which will allow threats to system security (as well as broader supply issues) to be more readily identified. In principle, these transparency requirements should seek to avoid duplication with existing disclosure obligations to minimise additional administrative burden on market participants.

However, we have significant concerns about RSA contracting obligations and the supplier of last resort mechanism

The ACCC is concerned about a number of negative impacts that could flow from implementing an RSA contracting obligation. We are particularly concerned about the potential for it to act as a barrier to entry for smaller retailers, and potentially trigger the exit of existing retailers from the market.

The ACCC has reported extensively in its gas inquiry reports on the limited competition to supply gas to C&I users, and the impacts this can have on gas prices and other non-price terms and conditions. Requiring forward contracting of gas and infrastructure services by retailers, particularly those that are not vertically integrated (which is the majority of retailers), may increase costs and risks and deter retail market participation. If this were to occur, it would lead to a deterioration of retailer competition, the consequences of which would be ultimately borne by consumers, including small customers.

We note that to the extent retailers are required to enter into forward contracts to meet expected gas demand, any increased costs to retailers will flow through to gas consumers.

Further, while the ACCC supports the intent to impose more guard rails around AEMO's use of the trading function through the supplier of last resort mechanism, we remain concerned that this type of mechanism could give rise to distortionary effects and unintended consequences. It could, for example, impede the efficient allocation of gas across the market. It could also 'crowd out' market participants, adversely affect competition in key parts of the supply chain, discourage efficient investment and/or prompt some users to decide to switch away from gas due to the uncertainty associated with this power. It may also give rise to a moral hazard if market participants consider that AEMO will step in and address the threats. Careful consideration will therefore need to be given to the design of this mechanism to address each of these matters.

AEMO now has broad powers to intervene in both gas and electricity markets, which are increasingly linked. To ensure that reliability is achieved at the lowest cost to energy

consumers, AEMO should be required to intervene using whichever tool minimises the economic costs borne by consumers across both gas and electricity markets while still achieving reliability standards. In addition, to the extent that AEMO's trading functions may be used to address reliability issues in the NEM, it will be important for it to consider how to appropriately apportion costs between gas and electricity market participants.

The ACCC welcomes any questions in relation to this submission.

Yours sincerely



Anna Brakey
Commissioner
Australian Competition and Consumer Commission

Attachment A: Stakeholder feedback template

Submission from the Australian Competition and Consumer Commission

The template below has been developed to enable stakeholders to provide feedback on Stage 2 of the development of the reliability and supply adequacy framework for the east coast gas market.

As noted in the consultation paper, Officials have not yet formed a view on whether a reliability standard, additional monitoring and communication tools or reliability and supply adequacy tools should be included in the framework. Officials are therefore interested in stakeholders' views on whether they think there is merit in including one or more of these additional elements in the framework and, if so, how they should be designed and implemented (e.g. as a package or sequenced in a particular way). There may of course be other options that are not identified in this consultation paper, which Officials would welcome feedback on.

Officials strongly encourage stakeholders to use this template, so that it can have due regard to the views expressed by stakeholders on each issue. If you wish to provide additional feedback outside the template, wherever possible please reference the relevant question to which your feedback relates.

Chapter 2: Reliability Standard

No.	Questions	Feedback
Section 2.2: Questions on the potential need for and role a reliability standard could play		
1	Do you think there is value in including a gas market reliability standard in the reliability and supply adequacy framework? Please explain your response.	<p>Consistent with our Stage 1 submission, the ACCC supports the inclusion of a gas market reliability standard in the RSA framework that can be used as an effective measure for:</p> <ul style="list-style-type: none"> ▪ objectively identifying RSA threats; ▪ guiding AEMO’s decision making on how to respond to such threats (either through directions or through a supplier of last resort mechanism); and ▪ supporting informed and efficient decision making by AEMO and market participants. <p>The ACCC agrees that, in the absence of a reliability standard, there is a risk that measures taken by market participants and AEMO to address RSA threats may exceed the value that gas consumers place on appropriate levels of reliability, and therefore be inefficient and have distortionary impacts.</p> <p>We consider that the implementation of a gas reliability standard that appropriately reflects the value that gas consumers place on reliability will be more likely to enable AEMO and market participants to make more informed and efficient decisions about potential breaches of the standard, and support informed and efficient contracting and investment decisions.</p> <p>In establishing the reliability standard, consideration will need to be given to both the value gas users place on reliability and the costs associated with maintaining reliability at an appropriate level. The latter of these matters is of considerable importance, given the costs will ultimately be passed on to gas consumers.</p>
2	What, if any, impact(s) do you think the introduction of a gas market reliability standard could have on market participants and the market more generally?	
3	Qualitatively, what do you think the main costs, benefits and/or risks would be of implementing a gas market reliability standard?	
4	Do you think a reliability standard is the appropriate solution to address the potential problems set out in section 2.2.1, or are there other alternatives that you think should be considered by Officials? If there are other alternatives you think should be considered, please outline what they are and explain why you think they are more appropriate.	

No.	Questions	Feedback				
Section 2.3.1: Questions on reliability standard design options						
5	<p>If a decision is made to implement a gas market reliability standard, what form do you think it should take:</p> <ul style="list-style-type: none"> a. A USG standard with either: <ul style="list-style-type: none"> i. a common standard that applies across the east coast (Option 1a)? ii. different standards for northern and southern jurisdictions (Option 1b)? b. A peak demand standard with either: <ul style="list-style-type: none"> i. a common standard that applies across the east coast (Option 2a)? ii. different standards for northern and southern jurisdictions (Option 2b)? c. A deterministic N-1 redundancy standard that focuses on the resilience of the supply infrastructure (i.e. production, storage or transportation infrastructure) in the east coast or on a northern and southern jurisdictional basis to either: <ul style="list-style-type: none"> i. an outage of the largest supply infrastructure in the east coast or on a regional basis (i.e. in northern jurisdictions and southern jurisdiction basis (Option 3a)? ii. an outage of individual components of key infrastructure (Option 3b)? d. A combination of options 1 and 2 (i.e. a dual annual USG and a peak demand reliability measure), with either: <ul style="list-style-type: none"> i. common standards that apply across the east coast (Option 4a)? ii. different standards for northern and southern jurisdictions (Option 4b)? e. A combination of options 1, 2 and 3 (i.e. a tripartite annual USG, peak demand and N-1 redundancy measure), with either: <ul style="list-style-type: none"> i. common standards that apply across the east coast (Option 5a)? ii. different standards for northern and southern jurisdictions (Option 5b)? f. Another option not identified in the consultation paper? If you think another option should be considered, please explain what the standard is and why you think it would be more appropriate than the options listed above. <p>Please explain your responses to these questions and any views you may have on the levels at which these standards should be set.</p>					
6	If you think a USG standard (Option 1) should be implemented, do you think it will be capable of identifying potential shortfalls in peak day deliverability?					
7	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%; padding: 5px;">If a peak demand standard was to be used under either Options 2 or 3:</td> <td style="padding: 5px;">a. Do you think a 1-in-2 year, 1-in-10 year or 1-in-20 year standard should be adopted? Please explain your response.</td> </tr> <tr> <td style="padding: 5px;"></td> <td style="padding: 5px;">b. Do you think a different peak demand standard should apply to GPG? Please explain your response.</td> </tr> </table>	If a peak demand standard was to be used under either Options 2 or 3:	a. Do you think a 1-in-2 year, 1-in-10 year or 1-in-20 year standard should be adopted? Please explain your response.		b. Do you think a different peak demand standard should apply to GPG? Please explain your response.	
If a peak demand standard was to be used under either Options 2 or 3:	a. Do you think a 1-in-2 year, 1-in-10 year or 1-in-20 year standard should be adopted? Please explain your response.					
	b. Do you think a different peak demand standard should apply to GPG? Please explain your response.					

No.	Questions	Feedback
8	If an N-1 redundancy standard was to be used, do you think it should assume an outage of the largest supply infrastructure or sub-components of that infrastructure?	
9	<p>Are there any specific matters you think need to be considered when estimating a gas VCR?</p> <p>a. Do you think widespread and long duration outages likely to be more relevant in gas than they are in electricity and should be factored into the gas VCR?</p> <p>b. Do you think an east coast wide VCR should be estimated, or do you think separate VCRs should be estimated for:</p> <p>i. each region (i.e. for southern jurisdictions and northern jurisdictions)?</p> <p>ii. each jurisdiction?</p>	
10	<p>Do you think the reliability standard should apply to natural gas only or could it apply to other covered gases that are suitable for consumption as natural gas (e.g. biomethane)?</p> <p>If it were to apply to other covered gases that are suitable for consumption as natural gas, what, if any effect, do you think this could have on the development of renewable gases?</p>	
11	Are there any specific matters that you think need to be considered when determining the level of a gas market reliability standard?	
Section 2.3.2: Questions on governance arrangements for a reliability standard		
12	<p>Do you think that the governance arrangements for the reliability standard should be based on the standard NGR governance arrangements with:</p> <ul style="list-style-type: none"> – the AER responsible for estimating a gas VCR; and – the reliability standard specified in the NGR and the AEMC responsible for considering any rule changes related to the reliability standard and facilitated market parameters? <p>If not, please explain why.</p>	
13	<p>Do you think there is a need to provide for periodic reviews of the reliability standard and facilitated market parameters? If so, who do you think should undertake these periodic reviews:</p> <p>a. the AEMC in consultation with market participants and market bodies?</p> <p>b. a gas market reliability panel?</p>	
14	<p>If you think a gas market reliability panel should</p> <p>a. What you think the benefits would be of establishing such a panel relative to the AEMC undertaking the reviews in consultation with market participants and market bodies.</p>	

No.	Questions		Feedback
	undertake the reviews, please set out:	b. If you think those benefits are likely to outweigh the costs and risks of establishing and maintaining such a panel.	
15	Are there any other governance options that you think should be considered?		
Other feedback			
Please set out any other feedback you may have on a gas reliability standard here.			

Chapter 3: Monitoring and communication tools

No.	Questions	Feedback
Section 3.2: Questions on the need for and role of additional monitoring and communication tools?		
16	Gas PASA	<p>a. Do you think there is value in providing for a gas PASA in the reliability and supply adequacy framework? Please explain your response.</p> <p><u>Improved transparency of intra-year demand-supply conditions</u></p> <p>In our Stage 1 submission, the ACCC expressed support for the proposed implementation of a Projected Assessments of Supply Adequacy (PASA).</p> <p>In the ACCC's view, the requirement for AEMO to publish a seasonal, medium-term and short-term PASA has the potential to improve market functioning by allowing market participants to make more informed decisions about the management of intra-year RSA threats, for which there is currently limited transparency.</p> <p>Furthermore, to the extent that the ACCC currently relies on GSOO demand forecasts, the publication of intra-year assessments will support the ACCC's gas inquiry reporting and quarterly advice to the Minister for Resources for ADGSM purposes.</p> <p><u>Reduced need for intervention</u></p> <p>The ACCC's submission to the Stage 1 reforms set out our concerns with the breadth and unqualified nature of AEMO's proposed extended functions and powers and the potential for distortionary effects and unintended consequences. We therefore suggested that these functions and powers be limited to address immediate, shorter term unforeseen risks to system security and reliability of supply that are unlikely to subside without intervention (i.e. for emergency purposes only).</p> <p>The ACCC's submission to AEMO's consultation on its proposed Stage 1 guidelines and procedures also raised competition concerns relating to the Gas Supply and Reliability Conferences, which have not been addressed in the final procedures and guidelines.</p> <p>Given the ACCC's concerns, the PASAs proposed in the consultation paper could be beneficial if by improving information transparency they eliminate or reduce the occurrence of RSA threats, and in turn limit the need for AEMO to conduct GSAR conferences and its use of reactive tools to only the very immediate threats.</p>
		<p>b. What, if any, impact(s) do you think the introduction of a gas PASA could have on market participants and the market more generally?</p> <p>The proposed PASAs should improve transparency, minimise information asymmetry and provide more certainty to market participants.</p> <p>The ACCC agrees that a gas PASA, coupled with other monitoring and communication tools within the RSA framework, will promote more timely and efficient responses by market participants and reduce the need for AEMO to respond to RSA threats with more interventionist tools.</p> <p>Consideration should be given to obtaining the most reliable data while reducing the administrative burden and avoiding duplication of disclosure obligations.</p>
		<p>c. Do you think a gas PASA is the appropriate solution to address the potential problems set out in section 3.2.1, or are there other alternatives that you think should be considered by Officials? If there are other alternatives you think should be considered,</p>

No.	Questions	Feedback
	<p>please outline what they are and why you think they are more appropriate.</p>	
17	<p>Objective threat signalling mechanism</p> <p>a. Do you think there is value in providing for an objective threat signalling mechanism in the reliability and supply adequacy framework? Please explain your response.</p> <p>b. What, if any, impact(s) do you think the introduction of such a signalling mechanism could have on market participants and the market more generally?</p> <p>c. Do you think an objective threat signalling mechanism is the appropriate solution to address the potential problems set out in section 3.2.1, or are there other alternatives that you think should be considered by Officials? If there are other alternatives you think should be considered, please outline what they are and why you think they are more appropriate.</p>	<p>Consistent with its Stage 1 submission the ACCC supports the inclusion of an objective threat signalling mechanism in the RSA framework.</p> <p>The ACCC agrees that such a mechanism should facilitate the effective communication of the potential severity of any RSA threats and when intervention by AEMO may be required. It should help to provide a clear objective signal to market participants of the nature and severity of potential threats to which they can respond.</p> <p>In this regard, it is worth noting that the LOR notices issued by AEMO in the NEM during 2022 to a large extent did not prompt sufficient responses from market participants. Careful consideration will therefore need to be given to the design of threat levels and the extent to which they can realistically be expected to prompt a response from the market.</p> <p>As noted in the consultation paper, a gas market threat signalling mechanism would need to be appropriately tailored to the gas market in a way that would usefully inform the market in periods with a genuine risk to reliability and supply adequacy.</p>
18	<p>Advance notice of closure for supply infrastructure</p> <p>a. Do you think there is value in requiring an advance notice of closure for supply infrastructure mechanism in the reliability and supply adequacy framework? Please explain your response.</p>	<p>The ACCC supports an advanced notice of closure requirement in the RSA framework as a proactive measure to address RSA threats associated with the closure of gas supply, transportation and storage infrastructure. The ACCC agrees that such a measure could help to reduce information asymmetry in relation to planned closures and provide more time for the market to respond to associated RSA threats.</p> <p>We note that the existing medium term infrastructure capacity reporting available on the Bulletin Board operates on a 24-month timescale. However, it may be necessary for the advanced notice of closure requirement to extend beyond 2 years to allow market participants time to invest in alternative sources of supply, or make other decisions that could reduce demand (e.g. alternative fuels, electrification) in response to a planned closure.</p> <p>The framework should require participants to report expected closures in a timely and accurate way – although there may be a need to provide for some flexibility in relation to planned closures of production facilities given the uncertain timing that can surround the depletion of gas fields.</p>

No.	Questions	Feedback
	<p>b. What, if any, impact(s) do you think the introduction of such a notice could have on market participants and the market more generally?</p> <p>c. Do you think an advance notice of closure requirement for supply infrastructure is the appropriate solution to address the potential problems set out in section 3.2.1, or are there other alternatives that you think should be considered by Officials? If there are other alternatives you think should be considered, please outline what they are and why you think they are more appropriate.</p>	
Section 3.3.1.1: Questions on gas PASA regional boundaries		
19	<p>If a gas PASA was to be implemented:</p> <p>a. What approach to determining regional boundaries do you think would be of greatest use to market participants in terms of effectively conveying information on the nature of any reliability or supply adequacy threats?</p> <p>b. Do you think the regional boundaries should be the same as between an ST and MT gas PASA, or is there value in using smaller regions for an ST PASA? If you think there is value in using smaller regions for the ST gas PASA, please set out some examples of what the breakdown could be.</p>	
Section 3.3.1.2: Questions on gas PASA timeframes		
20	<p>If a decision was made to implement a gas PASA, do you think there would be value in requiring AEMO to publish:</p> <p>a. an ST gas PASA?</p> <p>b. an MT gas PASA?</p> <p>Please explain your response</p>	
21	<p>In relation to the information available to AEMO to prepare a gas PASA set out in Table 3.1:</p> <p>a. Is there any additional information that you think AEMO would require to prepare an ST or MT gas PASA that has not been included in this table?</p> <p>b. What approach do you think should be used to forecast GPG demand for the purposes of an MT gas PASA? Please explain what this would involve.</p>	
22	<p>If an ST gas PASA was to be implemented:</p> <p>a. Do you think that a rolling 7-day outlook with a daily resolution updated daily (or more frequently if there is a material intra-day change) should be adopted? If not, please explain why and what timeframes you think would be more appropriate.</p>	

No.	Questions	Feedback
	<p>b. Do you think there would be value in providing for intra-day resolution for the DWGM? If so, is it likely to result in any additional reporting obligations?</p> <p>c. Qualitatively, what do you think the main costs, benefits and/or risks would be of implementing an ST gas PASA?</p>	
23	<p>If an MT gas PASA was to be implemented:</p> <p>a. What outlook period do you think should be adopted and why:</p> <ul style="list-style-type: none"> i. a rolling 6 month outlook period? ii. a rolling 12 month outlook period? iii. a rolling 24 month outlook period? <p>b. What do you think the main costs and benefits to market participants would be of the outlook period you think should be adopted?</p> <p>c. If a 12 or 24 month outlook period was to be adopted, which of the following options do you think should be used to extend the 6 month outlook period currently provided for by the disclosure obligations in Part 27 of the NGR and why:</p> <ul style="list-style-type: none"> i. Supplement the existing disclosure requirements with AEMO modelling of forecast demand and supply (Option 2)? ii. Amend the existing disclosure obligations in Part 27 of the NGR by either: <ul style="list-style-type: none"> (1) Extending the disclosure obligations to 12 or 24 months (Option 3A)? (2) Replacing the disclosure obligations with a principles based approach (similar to what the AEMC has implemented for the NEM ST PASA), which would allow AEMO, in consultation with industry, to determine what information should be reported and when it should be reported (Option 3B)? iii. Targeted additional information requirements with regular reporting (Option 4)? iv. Another option not identified in the consultation paper? If you think another option should be considered, please explain what it is and why you think it should be adopted. 	<p>The ACCC notes that a 6-month forecasting horizon for the medium term PASA may not be sufficient to inform market participants about the potential threats emerging within the year, noting that the GSOO and VGPR currently have a longer-term focus.</p> <p>The ACCC therefore supports a 12-month forecasting horizon and notes that this should also aid the Resources Minister's ADGSM decision making, which can now be activated on a quarterly basis.</p>

No.	Questions	Feedback
	<p>d. Do you think the MT gas PASA should have a daily resolution and be updated monthly (or more frequently if there is a material change)? If not, please explain why and what timeframes you think would be more appropriate.</p>	
	<p>e. Qualitatively, what do you think the main costs, benefits and/or risks would be of implementing an MT gas PASA?</p>	
Section 3.3.1.3: Questions on seasonal PASA reporting		
24	<p>Do you think there is value in requiring AEMO to publish a quarterly seasonal PASA report that would draw on information from the gas PASA, Bulletin Board, GSOO and VGPR modelling and include an assessment of things such as the adequacy of gas held in storage and emerging threats help inform the market participants' seasonal readiness plans?</p>	
25	<p>If a quarterly seasonal PASA report was to be developed, what would you like to see included in the report?</p>	
26	<p>Qualitatively, what do you think the main costs, benefits and/or risks would be of introducing this report?</p>	
Section 3.3.2: Questions on threat signalling mechanism		
27	<p>If a decision was made to implement an objective threat signalling mechanism:</p> <p>a. Do you think the threat levels described in section 3.3.2 (i.e. early warning, alert or emergency) should be employed, or are there more appropriate threat levels that you think should be employed?</p> <p>b. Do you think there should be an automatic link between the NEM and gas market threat signalling mechanisms? Or are other changes required to these two signalling mechanisms to recognise the increasing interrelationship between the markets?</p>	
28	<p>Qualitatively, what do you think the benefits, costs and risks would be of implementing a more objective threat signalling mechanism?</p>	
Section 3.3.3: Questions on advance notice of closure for supply infrastructure		
29	<p>If a decision was made to implement an advance</p> <p>a. Do you think it should be restricted to supply infrastructure (e.g. production, pipeline, compression and storage facilities), or are there other facilities you think it should apply to?</p> <p>b. What advance notice period do you think would be appropriate?</p>	

No.	Questions		Feedback
	notice of closure requirement:	c. Do you think penalties should apply to facility operators that fail to provide sufficient notice in the same way that they do in the NEM?	
30	Qualitatively, what do you think the benefits, costs and/or risks would be of implementing an advance notice of closure requirement?		
Other feedback			
Please set out any other feedback you may have on additional monitoring and communication tools here.			

Chapter 4: Reliability and supply adequacy management tools

No.	Questions	Feedback
Section 4.2: Questions on the potential need for and role of additional management tools		
31	Do you agree with the findings from the:	<p>a. MJA study on contracting behaviour set out in section 4.2.3.1? If not, please explain your view.</p> <p>b. ACIL Allen study on demand response set out in section 4.2.3.2? If not, please explain your view.</p>
32	RSA contracting obligation	<p>a. Do you think there is value in providing for an RSA contracting obligation in the reliability and supply adequacy framework? Please explain your response.</p> <p>b. What, if any, impact(s) do you think the introduction of an RSA contracting obligation could have on market participants and the market more generally?</p> <p>While the ACCC recognises that an RSA contracting obligation could reduce the need for more reactive interventionist tools being used (e.g. the directions or a supplier of last resort mechanism), it is concerned about the negative impacts that could flow from implementing an RSA contracting obligation.</p> <p>The ACCC is particularly concerned about the potential for an RSA contracting obligation to act as a barrier to entry for smaller retailers, and potentially trigger the exit of existing retailers from the market.</p> <p>The ACCC has reported extensively in its gas inquiry reports on the limited competition to supply gas to C&I users, and the impacts this can have on gas prices and other non-price terms and conditions. Requiring forward contracting of gas and infrastructure services by retailers, particularly those that are not vertically integrated (which is the majority of retailers), may increase costs and risks and deter retail market participation. If this were to occur, it would lead to a deterioration of retailer competition, the consequences of which would be ultimately borne by consumers, including small customers.</p> <p>If an RSA contracting obligation is to be implemented, then careful consideration would need to be given to an appropriate volume threshold that can be used to determine the size of market participants that would be captured by this part of the RSA framework to ensure this does not act as a barrier to smaller retailers.</p> <p>The ACCC also makes the following comments in relation to the RSA contracting obligation:</p> <ul style="list-style-type: none"> ▪ To the extent retailers are required to enter into forward contracts to meet expected gas demand, any increased costs to retailers will flow through to gas consumers. ▪ Supply adequacy issues may relate to a particular period of time within a year (e.g. peak winter demand) and be able to be addressed through measures other than requirements for contracting e.g. entering into time based swaps.

No.	Questions	Feedback
		<ul style="list-style-type: none"> ▪ The RSA contracting obligation appears to have the intended effect of requiring that, in periods of tight supply, owners of GPGs contract additional firm supply. To the extent that this is intended to add to reliability in the NEM, we note that alternative policy tools are available that could more directly address this issue, e.g. the NEM Reliability and Emergency Reserve Trader mechanism, and the Capacity Investment Scheme. ▪ Prices in domestic spot markets reflect the value of short-term gas on a daily or intra-day basis, and provide an important signal to the market. This signal can incentivise investment in projects that can deliver additional gas in periods of tight supply (for example gas storage or pipelines that can provide storage) and, to the extent higher gas prices are passed through to the NEM, incentivise investment in alternative generation sources. <ul style="list-style-type: none"> ○ Requiring retailers to enter into contracts for firm supply will likely result in decreased use of domestic spot markets by those retailers, lowering the volumes traded in these markets, and reduce the ability for prices to send robust and reliable investment signals. ○ While GPG reliance on spot markets may result in GPGs facing higher gas commodity costs during periods of tight supply, and bidding higher prices into the NEM as a result, these prices reflect scarcity and communicate an important signal to both markets. We recognise, however, the important role played by GPG in the absence of sufficient firming and storage capacity in the NEM. ▪ We note that Energy Ministers have agreed to incorporate an emissions reduction objective into the national energy objectives. The RSA contracting mechanism may lead to higher levels of GPG utilisation than would otherwise be the case, and as a result increase emissions. <p>We note that in many cases reliability issues can be addressed through an intervention in either gas or electricity markets. AEMO should be required take an approach that seeks to minimise the costs borne by energy consumers across both markets.</p>
	c. Qualitatively, what do you think the main costs, benefits and/or risks would be of implementing an RSA contracting obligation?	
	d. Do you think an RSA contracting obligation is the appropriate solution to address the potential problems identified in sections 4.2.2 and 4.2.3.1, or are there other alternatives that you think should be considered by Officials? If there are other alternatives you think should be considered,	

No.	Questions	Feedback
	<p>please outline what they are and why you think they are more appropriate.</p>	
33	<p>Administered demand response mechanism</p> <p>a. Do you think there is value in providing for an administered demand response mechanism in the reliability and supply adequacy framework? Please explain your response.</p> <p>b. What, if any, impact(s) do you think the introduction of an administered demand response mechanism could have on market participants and the market more generally?</p> <p>c. Qualitatively, what do you think the main costs, benefits and/or risks would be of implementing an administered demand response mechanism?</p> <p>d. Do you think an administered demand response mechanism is the appropriate solution to address the potential problems identified in sections 4.2.2 and 4.2.3.2, or are there other alternatives that you think should be considered by Officials?</p> <p>If there are other alternatives you think should be considered, please outline what they are and why you think they are more appropriate.</p>	<p>The ACCC broadly supports the inclusion of an administered demand response mechanism in the RSA framework. This could be used to proactively manage potential RSA threats and reduce the need for reactive and regulatory-based tools.</p> <p>The ACCC considers that the demand response panel should be established through a competitive tender process. Further, it will be important to ensure that AEMO does not overpay for demand reductions, by linking the payment to the value customers place on reliability (i.e. the VCR should act as a cap on what AEMO can pay).</p>
34	<p>Supplier of last resort mechanism</p> <p>a. Do you think there is value in building on the trading function by providing for a supplier of last resort mechanism in the reliability and supply adequacy framework? Please explain your response.</p>	<p>In its submission to the Stage 1 consultation, the ACCC expressed concerns about the proposed directions and trading powers given the potential distortionary effects and unintended consequences that this type of power could give rise to.</p> <p>In refinements to the framework following stage 1 consultation, AEMO may now only exercise its trading function if it is of the opinion that the direction is necessary to prevent, reduce or mitigate an actual or potential threat.</p> <p>While the ACCC supports the intent to impose more guard rails around AEMO's use of the trading function through the supplier of last resort mechanism, it remains concerned that this type of mechanism could give rise to these potential distortionary effects and unintended consequences. It could, for example, impede the efficient allocation of gas across the market. It could also 'crowd out' market participants, adversely affect competition in key parts of the supply chain, discourage efficient investment and/or prompt some users to decide to switch away from gas due to the uncertainty associated with this power. It may also give rise to a moral hazard if market participants consider that AEMO will step in and address the threats. Careful</p>

No.	Questions		Feedback
			<p>consideration will therefore need to be given to the design of this mechanism to address each of these matters.</p> <p>In addition to these matters, the ACCC notes that gas and electricity markets are increasingly linked, and that AEMO now has options to intervene in both markets. To ensure that reliability is achieved at the lowest cost to energy consumers, AEMO should be required to intervene using whichever tool minimises the economic costs borne by energy consumers (i.e. across both gas and electricity markets) while still achieving reliability standards. In addition, to the extent that AEMO's trading functions may be used to address reliability issues in the NEM, it will be important for it to consider how to appropriately apportion costs between gas and electricity market participants.</p>
	b. What, if any, impact(s) do you think building on the trading function by providing for a supplier of last resort mechanism could have on market participants and the market more generally?		
	c. Qualitatively, what do you think the main costs, benefits and/or risks would be of building on the trading function by providing for a supplier of last resort mechanism?		
	<p>d. Do you think a supplier of last resort mechanism is the appropriate solution to address the potential problems identified in sections 4.2.2 and 4.2.3.1, or are there other alternatives that you think should be considered by Officials?</p> <p>If there are other alternatives you think should be considered, please outline what they are and why you think they are more appropriate.</p>		
35	Are there any other reliability and supply adequacy management tools that you think should be considered by Officials? If so, please explain why you think they are required.		
Section 4.3.1: Questions on RSA contracting obligation			
36	<p>If a decision was made to implement an RSA contracting obligation, which of the following design options do you think should be implemented and why:</p> <ul style="list-style-type: none"> – A southern jurisdiction winter deliverability contracting obligation (Option 1)? – An east coast wide firm contracting obligation (Option 2)? – Another design option? If you think another option should be considered, please explain what it is and why you think it should be adopted. 		
37	If an RSA contracting	<p>a. Do you think the obligations should apply to:</p> <ul style="list-style-type: none"> i. Retailers and GPGs? 	

No.	Questions	Feedback
	<p>obligation was to be implemented:</p> <ul style="list-style-type: none"> ii. GPGs only? iii. Retailers only? <p>Please explain your response.</p> <p>b. In the case of GPGs:</p> <ul style="list-style-type: none"> i. Do you think it would be financially viable for GPGs to be subject to an RSA contracting obligation? If not, are there any other simpler or more direct ways to address the reliability and supply adequacy threats posed by GPG demand? ii. What, if any effect, a contracting obligation or alternative approach could have on competition in the NEM? <p>c. Do you think a size threshold should be adopted for liable entities? If so, what do you think is an appropriate size threshold?</p> <p>d. Do you think any other reforms would be required to enable liable entities to contract on reasonable terms? If so, please explain what additional reforms you think are necessary.</p> <p>e. How far in advance of a forecast reliability gap do you think the RSA contracting instrument would need to be triggered to provide liable entities sufficient time to contract and for any investment that may be required?</p> <p>f. How should the geological, land access, regulatory, commercial and other investment challenges that may be associated with the development of new supply infrastructure be recognised in the contracting obligations and/or penalty regime?</p> <p>g. Do you think the contracting obligation should allow liable entities to procure other covered gases that are suitable for consumption as natural gas (e.g. biomethane and low hydrogen blends)?</p> <p>h. Do you think it would be necessary to provide for:</p> <ul style="list-style-type: none"> i. A liquidity obligation? If so, please explain how you envisage this obligation would work. ii. A voluntary book build mechanism administered by AEMO to facilitate the development of any new supply and/or capacity that may be required? If so, please explain how you envisage this would work. 	

No.	Questions	Feedback
	<p>i. Do you think the contracting obligation would incentivise retailers to help transition customers to alternative fuels (where feasible), or would a separate tool be required to achieve this?</p>	
38	<p>If a southern jurisdiction winter deliverability contracting obligation (Option 1) was to be implemented:</p> <p>a. Are there any additional design features that you think need to be considered (see Table 4.2)?</p> <p>b. Are there any design features that have been proposed that you think would not work in the east coast gas market (see Table 4.2)?</p> <p>c. Are there any material costs, risks or benefits associated with this option that you think should be considered?</p>	
39	<p>If an east coast wide firm contracting obligation (Option 2) was to be implemented:</p> <p>a. Are there any additional design features that you think need to be considered (see Table 4.2)?</p> <p>b. Are there any design features that have been proposed that you think would not work in the east coast gas market (see Table 4.2)?</p> <p>c. Are there any material costs, risks or benefits associated with this option that you think should be considered?</p>	
Section 4.3.2: Questions on a potential administered demand response mechanism		
40	<p>If a decision was made to implement an administered demand response mechanism, do you think the design option described in section 4.3.2 should be implemented, or is there another option that you think could unlock demand response in a more cost effective way?</p>	
41	<p>If the administered demand response mechanism described in section 4.3.2 was to be implemented:</p> <p>a. Do you think it should only be open to large gas users to participate in, or should retailers and/or demand response aggregators also be able to participate?</p> <p>b. Do you think it would be necessary to make availability payments to panel members to encourage them to participate, or could they just be paid a pre-activation or activation payment?</p> <p>c. Are there any additional design features that you think need to be considered?</p>	
Section 4.3.3: Questions on supplier of last resort mechanism		
42	<p>If a decision was made to implement a supplier of last resort mechanism, which of the following design options do you think should be implemented and why:</p>	

No.	Questions	Feedback	
	<ul style="list-style-type: none"> – a southern jurisdiction winter deliverability supplier of last resort mechanism (Option 1)? – an east coast wide RERT-style supplier of last resort mechanism (Option 2)? – another design option? If you think another option should be considered, please explain what it is and why you think it should be adopted. 		
43	In relation to the risk of crowding out market participants:	a. Do you think it feasible to AEMO to procure 'out of market' gas (i.e. gas that would not otherwise be available to the market) or other services (e.g. transportation and storage services)? If so, how would this occur and are there any risks associated with doing so?	
		b. If it is not feasible to procure 'out of market' gas or other services, is there any other way that you think the risk of AEMO crowding out market participants could be addressed?	
44	Do you think:	a. The supplier of last resort mechanism should only focus on natural gas, or should it also allow AEMO to procure other covered gases that are suitable for consumption as natural gas (e.g. biomethane and low hydrogen blends)?	
		b. Any additional measures (over and above a causer pays approach to cost allocation) are required to counter the impact that AEMO acting as supplier of last resort may have on market participants' incentives to take their own actions to address the threats?	
45	If a southern jurisdiction winter deliverability supplier of last resort mechanism (Option 1) was to be implemented:	a. Do you think AEMO should only be able to contract and/or hold a storage reserve for the winter period, or should it be able to contract for a longer period?	
		b. Are there any additional constraints that you think should apply to this mechanism that have not been identified in Table 4.3?	
		c. Are there any additional design features that you think need to be considered for this option (see Table 4.3)?	
		d. Are there any design features that have been proposed that you think would not work in the east coast gas market (see Table 4.3)?	
		e. Are there any material costs, risks or benefits associated with this option that you think should be considered?	

No.	Questions	Feedback	
46	If an east coast wide RERT-style supplier of last resort mechanism (Option 2) was to be implemented:	a. Are there any additional constraints that you think should apply to this mechanism that have not been identified in Table 4.3?	
		b. Are there any additional design features that you think need to be considered (see Table 4.3)?	
		c. Are there any design features that have been proposed that you think would not work in the east coast gas market (see Table 4.3)?	
		d. Are there any material costs, risks or benefits associated with this option that you think should be considered?	
Other feedback			
Please set out any other feedback you may have on reliability and supply adequacy management tools here.			

Chapter 5: Potential changes to the GSOO and VGPR

No.	Questions	Feedback
47	<p>Do you think there is value in aligning the GSOO and VGPR with the reliability and supply adequacy framework?</p> <ul style="list-style-type: none"> – If so, are there any changes contemplated in section 5.1 that you think are unnecessary, or are there other changes that you think should be considered? – If not, please explain why. – Are there any material costs, risks or benefits that you think should be considered when deciding whether or not to align the GSOO and VGPR with the framework? 	<p>The ACCC supports necessary changes to the GSOO and VGPR to align them with the reliability and supply adequacy framework.</p>
48	<p>Do you think there is value in trying to achieve greater alignment between the GSOO, VGPR and NEM forecasting tools?</p> <ul style="list-style-type: none"> – If so, are there any changes contemplated in section 5.2 that you think are unnecessary, or are there other changes that you think should be considered? – If not, please explain why. – Are there any material costs, risks or benefits that you think should be considered when deciding whether to align the GSOO and VGPR with the NEM forecasting tools? 	
<p>Please set out any other feedback you have on the potential alignment of the GSOO and VGPR here.</p>		

Implementation and other questions

No.	Questions	Feedback
49	<p>If any of the additional elements outlined in the consultation paper were to be implemented, do you think they should be implemented as a package or sequenced in a particular way?</p>	
50	<p>Are there any other problems, impacts or matters that you think Officials should take into account when considering whether to include any of the additional elements outlined in the consultation paper?</p>	