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DCCEEW
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By email: GAS@dcceew.gov.au

Re: Stage 2 of the reliability and supply adequacy framework for the east coast gas market

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) consultation paper on the reliability and supply adequacy framework for the east coast gas market.

The AER monitors wholesale gas markets for compliance with the underpinning legislation and rules, and takes enforcement action for breaches. Market monitoring also allows us to inform policy makers, participants and the community about the performance of wholesale gas markets, including prices. The AER regulates gas pipelines in jurisdictions other than Western Australia and Tasmania, aiming to ensure service providers operate these assets reliably and cost effectively. One of the AER's five compliance and enforcement priorities for this financial year is to clarify obligations and monitor compliance with reporting requirements under the new Gas Market Transparency Measures. The AER will also extend its surveillance and compliance activity under the stage 1 East Coast Gas system reliability and supply adequacy reforms.

AEMO's Gas Statement of Opportunities identifies near-term shortfalls so that the market can respond. The AER supports measures to strengthen the information available to AEMO to predict the risk of shortfalls, including increased transparency of forecast supply and demand contemplated with this package, building on stage 1 reforms.

The AER supports improved visibility of the reliability and adequacy of gas supply over the short, medium and long term, and the management of any shortfalls efficiently and at least cost to consumers.

The reforms in the consultation paper propose additional powers for AEMO to intervene where it believes the market will fail to deliver adequate gas supplies. The AER recognises that intervention in the market is sometimes necessary to avoid harm to consumers, but that the impact of the harm should always be weighed against the costs of the intervention to ensure consumers are better off, now and in the future.

The AER supports the further consideration of the list of tools in the framework outlined in the consultation paper, noting the importance of the following:

- There are significant differences between the gas and electricity markets. This includes the balance of negotiating power between participants, the use of both markets and contracts between participants for the supply of gas, and the variability in competitive options that can be procured for different services at different locations. The design of tools drawn from the electricity sector should be cognisant of the practical differences of gas and electricity markets as well as the different objectives the tools are intended to achieve. For example:
 - The physical consequences of a gas outage compared to an electricity outage, including different safety implications, and the reduced availability of examples of gas outages to draw from.
 - The reforms propose different methodologies for the reliability standard. The AER believes that the cost of a supply interruption should consider the impact of the failure of key infrastructure and supply sources so that the available options, and their cost, can be appropriately matched. For example, the option of sourcing additional gas supply from LNG exporters is only available if the relevant pipelines have available capacity to deliver it to where it is needed.
 - The AER does not consider an N-1 redundancy approach (where additional infrastructure is built just in case the first one fails) to be appropriate for the Australian market, where cheaper demand-supply balancing alternatives exist.
- Given the finite number of infrastructure or supply failures that could cause a shortfall, the proposed monitoring tools of PASA reporting and threat signalling to improve transparency and predictability, should be prioritised. This would best support market responses where possible, and allow a deeper analysis of least cost options to address shortfalls, where the market does not respond.
- As some governments have indicated their intention to reduce reliance on gas, options to address shortfalls should also include non-gas solutions where the cumulative cost of shortfalls over time, or the overlap with other government policy objectives, warrants their consideration. This cost analysis may benefit from coordination with other workstreams such as the Victorian gas substitution roadmap and the ACT's 'pathway to electrification'.
- Tools that are costly to implement and place an ongoing distortionary effect or cost burden on market participants, rather than only in the event of being triggered should be a last resort. To that end, the AER recommends further work identifying the likelihood of shortfalls occurring, and whether the drivers of the shortfalls can be easily identified in advance and resolved with tools that have simple checks and balances. Further work should be done to identify the need for more complex and expensive tools such as contracting obligations on retailers, notice of closure requirements for gas suppliers or pipeline service providers, or supplier of last resort powers for AEMO.
 - Contracting obligations (similar to the Retailer Reliability Obligation for electricity retailers) and notice of closure requirements would impose positive, costly obligations on service providers and retailers, and yet these tools would still confront existing information asymmetries or differences in levels of competition between different services.
 - Broadening access to demand response mechanisms with appropriate competitive processes could be a simpler tool to implement without having the same challenges to overcome.
 - As stated above, the AER supports market intervention powers having appropriate constraints and transparency to provide guardrails on interventions in the market. However, due to the cost of the implementation of these powers ultimately being

borne by consumers, it's important to consider whether the benefit of the guardrails will offset the costs of implementation. Further analysis of the drivers of future shortfalls, their impact and the available solutions will help inform this analysis.

We look forward to continuing to work with DCCEEW as this consultation proceeds and welcome the opportunity to provide input on any detailed design issues. If you have any questions relating to this submission please contact Andrea Morris on (08) 8213 3494.

Yours sincerely,



Jarrod Ball
AER Board Member
Sent by email on: 20.07.2023