



# INFORMATION

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## Final recommendations for the Review of the Gas Supply Guarantee

The Australian Energy Market Commission (AEMC) has published a final report for its review of the Gas Supply Guarantee. It recommends the Australian Government extends the term of the Gas Supply Guarantee for three years to March 2026, with an assessment of the long-term need of the mechanism to be carried out prior to the conclusion of this extended period.

### Purpose of this review

The purpose of this review is to establish the value of the Gas Supply Guarantee to the national electricity market (NEM) and electricity consumers.

In particular, the problem this review seeks to assess is whether the Gas Supply Guarantee (or an alternative mechanism) is needed to ensure continued supply of gas to support peak demand periods in the NEM.

### Final recommendation

The AEMC's final recommendation is:

- for the Australian Government to extend the term of the Gas Supply Guarantee another three years to March 2026
- that an assessment on the long term need of the Gas Supply Guarantee be carried out prior to the conclusion of this extended period
- that the definition of gas supply shortfall be amended to clarify that a shortfall is considered in the context of part of a NEM region rather than the NEM as a whole.

This final recommendation has been made on balance following consideration of a number of alternative views from stakeholders as well as the short to medium term outlook for the east coast energy market.

It is prudent under the current changing circumstances that the Australian Energy Market Operator (AEMO) and market participants be able to access a tool such as the Gas Supply Guarantee that could assist them in managing potential gas supply shortfalls faced by gas-powered generators.

Reflecting the low cost, light handed nature of the current Gas Supply Guarantee, the flexibility of the Gas Supply Guarantee Guidelines in dealing with issues as they arise and the role the guidelines play in bringing industry together to share information when it is needed most, the AEMC does not recommend any fundamental change to the mechanism such as including it in the national energy rules at this time.

The AEMC is satisfied that continuation of the current arrangements for another three years is likely to be consistent with the long term interests of electricity and gas consumers. This recommendation is consistent with that set out in the draft report.

The AEMC anticipates that a review of the Gas Supply Guarantee in three years will indicate whether the transformation of the energy sector still requires a mechanism of this nature or if the risks to supplying gas-powered generators have changed such that the Gas Supply Guarantee is no longer needed.

## Improvements to consider

In the draft report the AEMC explored a couple of potential improvements for the NEM and east coast gas market that have been identified by AEMO, which were assessed more closely and in light of stakeholder feedback and are discussed below.

### Definition of gas supply shortfall

The AEMC has considered the issues raised by stakeholders in submissions and in later correspondence. On balance, it has concluded that the definition should be amended to at least reflect the fact that a gas supply shortfall should be considered in the context of issues arising in part of a NEM region, rather than the NEM as whole.

The recommended change retains the original intent of the Gas Supply Guarantee, with the benefit of providing greater clarity to its applications.

### Planned maintenance coordination forum

In response to the draft report, stakeholders generally indicated that the South East Australia Gas Maintenance Coordination Workshop (SEAGMCW) provides value. Some noted that it has positive flow-on effects by reducing the chance of a gas supply shortfall and so reducing the need to use the Gas Supply Guarantee.

Despite this, no stakeholder supported an explicit link between the workshop and the Gas Supply Guarantee. Instead, stakeholders considered that acknowledgement or inclusion of SEAGMCW in the guidelines is either unnecessary or inappropriate.

The AEMC welcomes the additional information provided by AEMO and the acknowledgement of the forum's operation on its website. It also notes that AEMO has implemented measures to help address competition law concerns with respect to the forum. The Commission does not consider that any final recommendations in regard to the forum are required.

## Consultation process

The AEMC received nine submissions to the draft report published on 29 July 2021 and held six meetings with stakeholders during the second consultation phase. The AEMC also worked collaboratively with AEMO through the review process.

## Background

The Guarantee was initiated by the Australian Government in March 2017 in a package of gas market initiatives that included the Australian domestic gas supply mechanism (ADGSM). Under the mechanism, gas producers and pipeline service providers made voluntary commitments to the Australian Government to supply gas-powered generators to regions under system stress, such as demand spikes during heatwaves.

To support gas producers and pipeline service providers delivering on these commitments, the Gas Supply Guarantee guidelines were developed by the market operator, AEMO.

Under these guidelines, AEMO monitors gas and electricity market outlooks to help it form a view on the risk of supply shortfalls in gas available to meet the needs of gas-powered generators operating at the capacity required during peak demand periods in the national electricity market. If AEMO considers that there is, or there may be, a shortfall then a conference of industry participants is convened to resolve the supply inadequacy.

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