AUSTRALIAN ENERGY MARKET COMMISSION

RULE

Consultation paper

National Gas Amendment (ECGS Notice of closure for gas infrastructure) Rule

Proponent

Energy Senior Officials on behalf of the Energy Minister's Sub-Group

20 March 2025

Inquiries

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Reference: GRC0074

About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.

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Summary

1 Energy Senior Officials on behalf of the Energy Minister's Sub-Group (the proponent) submitted a rule change request on 29 April 2024 seeking an amendment to the medium-term capacity outlook in the National Gas Rules (NGR) for the Gas Bulletin Board to capture planned closures of supply and delivery infrastructure for the East Coast Gas System (ECGS).

2 The proponent is of the view that, while historically gas infrastructure closures have not been an issue, the size and scope of the energy transition could trigger the closure of some natural gas supply and delivery infrastructure. The proponent believes that without sufficient advanced notice given to the market these closures could impact on the reliability of supply of the ECGS by limiting the ability of market participants to respond in an informed and efficient manner to any reliability and supply adequacy (RSA) threats associated with the closure.

3 The AEMC has commenced its consideration of the request, and this consultation paper is the first stage.

4 We are seeking your feedback on how we propose to assess the request to determine if it will promote the long-term interests of consumers, the materiality of the problem, the feasibility of the proposed solution, or if there are other alternatives.

This rule change request is part of stage 2 of RSA framework reforms

5 During winter 2022, wholesale gas prices in the facilitated markets across the ECGS reached record highs, triggering administered price caps in some markets. In August 2022 Energy Ministers directed jurisdictional energy officials to progress a package of reforms aimed at supporting a more secure, resilient and flexible east coast gas market. This included introducing a RSA framework for the ECGS. [1]

6 The RSA framework's implementation was staged. Amendments to the National Gas Law giving effect to the first tranche of changes (stage 1) commenced on 27 April 2023, alongside supporting regulations.[2] The corresponding rule amendments came into effect on 4 May 2023.[3] These stage 1 changes expanded the Australian Energy Market Operator's (AEMO) powers under the National Gas Law (NGL) to enable better management of gas supply adequacy and reliability risks ahead of winter 2023 and beyond.[4]

7 The stage 2 RSA reforms aim to build on the stage 1 reforms. This rule change request is one of four rule change requests being progressed through the AEMC's rule change process as part of the stage 2 reforms, see the figure below, and chapter 1 of the Background Paper for more information on the rule change requests.

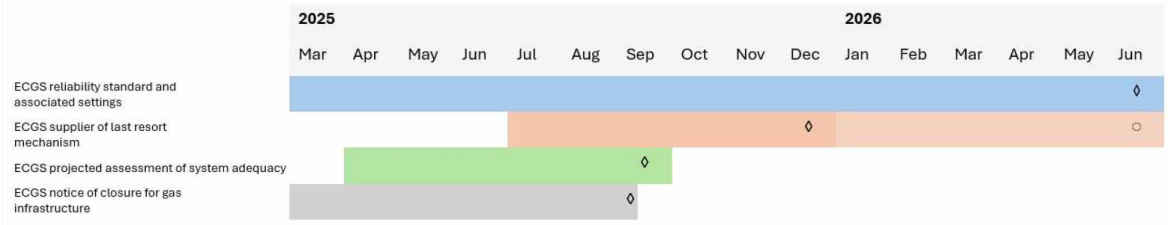
1 Energy and Climate Change Ministerial Council (ECMC), Consultation on stage 2 of the reliability and supply adequacy framework for the east coast gas market, accessed 3 February 2025.

2 The National Gas (South Australia) (East Coast Gas System) Amendment Act 2023 and the National Gas (East Coast Gas System) Amendments Regulations 2023.

3 The National Gas Amendment (East Coast Gas System) Rule 2023.

4 ECMC, Regulatory amendments to extend AEMO's functions and powers to manage east coast gas supply adequacy, accessed 3 February 2025.

Figure 1: Indicative timeframes for the four ECGS rule change requests



Source: AEMC

Note: These timelines are indicative only and subject to final Commission approval. Timelines may vary over the course of each rule change project to account for changes in circumstances. Key: ◊ = statutory completion date for standard rule changes (noting that the ECGS reliability standard rule change has issued extension notices for both draft and final determinations) ○ = potential completion date to account for an extended timeframe to address complexity and difficulty arising from the rule change requests.

8 Additionally, the Commission is actively considering the work being undertaken by the Energy and Climate Change Ministerial council (ECMC) to further expand AEMO's gas powers and how that relates to these rule change requests. The ECMC has tasked Senior Officials to work with AEMO to address ECGS supply issues and recommend policy options to address this over the medium term.[5]

The Commission views planning for the role of gas as a key challenge and opportunity for the energy transition

9 The Commission also considers that one of the key challenges and opportunities we need to consider during the energy transition is planning for the role of gas. [6] The Commission is of the view that transition planning for gas in Australia's energy system must account for consumers, networks, exports, and wholesale market impacts, with one of the challenges being certainty for investors, households, and industry.[7]

We are seeking your views on whether the absence of advanced notice of closure reporting requirements could limit the ability of market participants to respond in a timely, informed, and efficient manner to any reliability of supply adequacy threats

10 The proponent considers that current gas market monitoring and communication tools do not provide market participants with sufficient notice for planned closures of gas supply and delivery infrastructure.

11 The proponent believes that the absence of advanced reporting requirements for the closure of gas supply and delivery infrastructure in the rules would adversely affect the market. Having incomplete, inaccurate, or asymmetric information could:

- Limit the ability of market participants to plan and respond in an informed and efficient manner to any threats associated with any closures [8]

5 Communique, *Energy and Climate Change Ministerial Council Meeting*, 6 December 2024, pp 2-3. See section 1.2.2 of the Background Paper.

6 AEMC, A consumer-focused net zero energy system, September 2024.

7 AEMC, A consumer-focused net zero energy system, September 2024, p25-26.

8 Rule change request, p.8.

- Affect the efficiency with which gas supply and delivery infrastructure and resources are allocated, ultimately impacting the reliability of supply for the ECGS[9]
- Impact the National Electricity Market (NEM) and electricity supply because gas powered generators (GPG) may also be impacted.[10]

12 The request further suggests that advanced reporting requirements would help market participants to respond in a timely, informed, and efficient manner to any reliability of supply and adequacy threats posed by any closures.

13 The Commission is interested in stakeholder views around whether having sufficient advanced notice of the closure of gas supply and delivery infrastructure could have a material impact on the reliability of supply of the ECGS.

We are seeking your views on the scope of an advanced notice of closure obligation

14 The Commission is also interested in stakeholder views on the scope of the notice of closure obligation, including whether:

- there is value in an advanced notice of closure obligation if the closure date can keep being extended
- the obligation should be limited to gas supply and delivery infrastructure only, i.e. not large users
- the obligation should include exceptions to address the risk of penalising good faith estimates.

15 See **section 3.2** for more information.

We are seeking your views about the overarching benefits of an advanced notice of closure obligation

16 The proponent considers the benefits of having an advanced notice of closure obligation are that it could:

- contribute to greater reliability by providing market participants with more timely and transparent information on planned supply and delivery infrastructure closures. It could also facilitate timelier and more efficient decision-making and market-led responses
- reduce the need for more interventionist methods, (e.g. the market operator needing to issue directions) that could have adverse effects on the market, to manage reliability or supply adequacy threats.

17 We are interested in stakeholder views about these benefits which are discussed in more detail in **section 3.1**.

We are also seeking your views on the three options identified by the proponent for consideration

18 The proponent has identified three potential options to address the current problem with the rules:

1. **Option 1:** Amend the Gas Statement of Opportunities (GSOO) provisions in Part 15D of the NGR and Victorian Gas Planning Report (VGPR) provisions in Part 19 of the NGR to require

9 Rule change request, p.10.
10 Rule change request, p.10.

AEMO to report on planned closures of supply and delivery infrastructure with at least 36 months notice.

2. **Option 2** (the proponent's preferred option): Amend the Bulletin Board medium-term capacity outlook provisions in Part 18 of the NGR to require supply and delivery infrastructure operators to report on planned permanent closures with at least 36 months notice.
3. **Option 3:** Include a new part in the rules that requires a notice of closure of supply infrastructure and largely mirrors the requirements in the NEM. This would provide at least 42 months advanced notice of closure.

19 Option 2 is the proponent's preferred approach because, in their view, it would provide the greatest transparency of planned closures, while also providing a relatively 'light touch' approach by using the existing Bulletin Board reporting and penalty framework. The proponent believes that this would minimise costs and impacts on affected parties without compromising the benefits of improving transparency around planned closures.

20 The Commission is interested in stakeholder views on the three options and whether there are any other alternatives.

We consider that there are three assessment criteria that are most relevant to this rule change request

21 Considering the NGO[11] and the issues raised in the rule change request, the Commission proposes to assess the rule change request against three assessment criteria.

22 Please provide feedback on our proposal to assess the request against:

- **Safety, security and reliability: outcomes** - these are central to the rule change request, as the intent is to maintain or improve the reliability and security of supply of gas.[12] Our key question is:
  - Would the proposed rule change enable reliable, secure and safe provision of energy at efficient cost to consumers over the long term?
- **Principles of market efficiency: transparency** - the proposed rule change could increase transparency and could further reduce information asymmetry. Our key question is:
  - Would the proposed rule change increase information transparency and reduce information asymmetry?
- **Principles of good regulatory practice: consider broader direction of reform** - it will be critical to consider the broader direction of reforms associated with the RSA framework (stage 1 and 2). Our key question is:
  - Would the proposed rule change support other reforms underway?

Submissions are due by 17 April with other engagement opportunities available

23 There are multiple options to provide your feedback throughout the rule change process.

24 Written submissions responding to this consultation paper must be lodged with Commission by COB 17 April 2025 via the Commission's website, www.aemc.gov.au.

25 There are other opportunities for you to engage with us, such as one-on-one discussions. See the

11 Section 23 of the NGL.
12 Rule change request, p.17.

section of this paper about "How to engage with us" for further instructions and contact details for the project leader.

Full list of consultation questions

Question 1: Do you agree that not having sufficient advance notice of the closure of gas supply and delivery infrastructure could have a material impact on the reliability of supply of the ECGS?

Question 2: Do you agree that current requirements for updates of closures are unlikely to provide market participants sufficient notice to make informed and efficient decisions on how to respond to the reliability and supply adequacy risks associated with such closures?

Question 3: Do you agree with the proposed benefits of an advanced notice of closure requirement? Why/why not?

Question 4: Do you agree with the proposed scope of the advanced notice of closure requirement? Why/why not?

Question 5: Do you think any of the design elements of the NEM notice of closure requirements should be adapted and applied to a gas notice of closure requirement?

Question 6: What are your views on the expected costs and benefits of the proposed three options? Do you agree that option two (the proponent's preferred approach) is the best solution to address the issue raised by the proponent? Why/why not?

Question 7: Do you agree that 36 months is the correct amount of time to provide an advanced notice? Why/why not?

Question 8: Do you consider any variation or alternative to the proposed solution could solve the issue raised by the proponent?

Question 9: a) Do you agree with the proposed key assessment criteria? b) Are there additional criteria that the Commission should consider or criteria included here that are not relevant?

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solutions by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and, in so doing, contributes to well-informed, high quality rule changes.

We have included questions in each chapter to guide feedback, and the full list of questions is above. However, you are welcome to provide feedback on any additional matters that may assist the Commission in making its decision.

How to make a written submission

Due date: Written submissions responding to this consultation paper must be lodged with Commission by COB 17 April 2025.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code GRC0074.[13]

You may, but are not required to, use the stakeholder submission form published with this consultation paper.

Tips for making submissions are available on our website.[14]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).[15]

Other opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions or bilateral industry briefings. See below for contact details.

For more information, you can contact us

Please contact the project leader with questions or feedback at any stage.

Project leader:	Nomiky Panayiotakis
Email:	nomiky.panayiotakis@aemc.gov.au

13 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission.

14 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/submission-tips

15 Further information is available here: https://www.aemc.gov.au/contact-us/lodge-submission

Contents

1 The context for this rule change request

This consultation paper seeks stakeholder feedback on the rule change request submitted by Energy Senior Officials on behalf of the Energy Ministers' Sub-Group (the proponent). The request seeks to amend the medium-term capacity outlook in the rules for the Gas Bulletin Board to capture planned closures of supply and delivery infrastructure for the East Coast Gas System (ECGS). The proponent is of the view that, while historically this has not been an issue, the size and scope of the energy transition could trigger the closure of some natural gas supply and delivery infrastructure. The proponent believes that without sufficient advanced notice given to the market these closures could impact on the reliability of supply of the ECGS by limiting the ability of market participants to respond in an informed and efficient manner to any reliability and supply adequacy (RSA) threats associated with the closure.

The Commission considers that one of the key challenges or opportunities we need to consider during the energy transition is planning for the role of gas.[16] The Commission is of the view that transition planning for gas in Australia's energy system must account for consumers, networks, exports, and wholesale market impacts, with one of the challenges being certainty for investors, households, and industry.[17]

1.1 Energy Ministers have proposed the rules be changed to require advanced notice of closure for gas supply infrastructure in the ECGS

The 'ECGS notice of closure for gas infrastructure' rule change request[18] is one of four[19] rule change requests that together seek to extend the reliability and supply adequacy (RSA) Framework for the ECGS. The intention for the extended Framework is to equip the Australian Energy Market Operator (AEMO) and market participants with tools to respond to any threat of gas supply shortfalls.

Following changes to the National Gas Law (NGL) in early 2023, RSA Stage 1 reforms were implemented to manage impending risks of gas shortfalls forecast for winter 2023.[20] Since its implementation, Energy Ministers considered that additional changes in the National Gas Rules (NGR) were needed to address reliability risks in the short, medium, and long term. As such, in December 2023, Ministers directed Senior Energy Officials to progress a package of reforms to implement Stage 2 RSA Framework.[21]

This rule change request takes inspiration, in part, from the generator notice of closure requirements currently in place in the National Electricity Rules (see section 2.1.2). This rule change request proposes that operators of production, pipeline, compression, and storage facility infrastructure that meet the Gas Bulletin Board reporting threshold (i.e. by having a nameplate capacity rating of at least 10 TJ per day) would be required to report the date of the planned

16 AEMC, A consumer-focused net zero energy system, September 2024.

17 AEMC, A consumer-focused net zero energy system, September 2024, p25-26.

18 Rule change request, Extension of Bulletin Board medium-term capacity reporting requirements for planned supply & delivery infrastructure closures, Energy Senior Officials on behalf of the Energy Ministers' Sub-Group, https://www.aemc.gov.au/sites/default/files/2024-05/New%20rule%20change%20proposal%20-%20DCCEEW%20-%2020240429%20%281%29.pdf.

19 The other three rule change requests: ECGS reliability standard and associated settings, https://www.aemc.gov.au/rule-changes/ecgs-reliability-standard-and-associated-settings; ECGS supplier of last resort mechanism, https://www.aemc.gov.au/rule-changes/ecgs-supplier-last-resort-mechanism; ECGS projected assessment of system adequacy, xxx.

20 Stage 1 reforms gave AEMO some power to address and mitigate reliability risks and threats in the ECGS. These include powers to issue directions to relevant entities in the ECGS, or trade gas where no industry responses to reliability threats are feasible. For more information on Stage 1 reforms see Chapter 3 of the AEMC's background paper, which contains information to support stakeholders during consultation across the four RSA Stage 2 rule change requests.

21 For more details on the other rule change requests that form part of the extended Framework, please see Chapter 1 of thebackground paper.

closure 36 months prior to closure. This information would be made available to market participants via the Gas Bulletin Board.[22]

It is proposed that the information provided in advanced closure notices would support improved forecasting in the Gas Statement of Opportunities (GSOO), the Victorian Gas Planning Report (VGPR) and the proposed projected assessment of system adequacy (PASA).[23]

The proponent states that the benefits of an advanced notice of closure requirement include:

- Providing more transparency to the market which could contribute to reliability and enable market participants to respond in a timely, informed and efficient manner to any gas supply shortfalls. See **section 2.1** for more information.
- Reducing the need for more interventionist methods (i.e. directions issues by AEMO). See **section 3.1** for more information.

The proponent set out three options for how this could be given effect:

- **Option 1:** Amend the GSOO provisions in Part 15D of the NGR and VGPR provisions in Part 19 of the NGR to require AEMO to report on planned closures of supply and delivery infrastructure with at least 3 years notice.
- **Option 2** (the proponent's preferred option): Amend the Bulletin Board medium-term capacity outlook provisions in Part 18 of the NGR to require supply and delivery infrastructure operators to report on planned permanent closures with at least three years notice.
- **Option 3:** Include a new part in the rules that, largely mirrors the requirements in the NEM, in requiring a notice of closure of supply infrastructure

See **section 3.2** for more information about these three options.

1.2 The Commonwealth government engaged with stakeholders prior to submitting this request

In June 2023 the Department of Climate Change, Energy, the Environment and Water (DCCEEW) asked stakeholders to provide feedback on the design of the Stage 2 RSA framework which could complement stage 1. This included consultation on an advanced notice of closure obligation, which helped inform this rule change request.[24]

1.3 The Commission may need to consider Senior Officials' advice to Ministers' and subsequent ECMC reforms

At the 6 December 2024 Energy and Climate Change Ministerial Council ECMC meeting Ministers' tasked Senior Officials to work with AEMO on potential expanded powers for AEMO to address ECGS supply issues, and recommend policy options to address this over the medium term.[25]

The Commission may need to consider the impact of this advice on the proposed rule change.

22 The Gas Bulletin Board was established on 1 July 2008, as a gas market and system information website covering all major gas production fields, major demand centres and natural gas transmission pipeline systems of South Australia, Victoria, Tasmania, NSW, ACT and Queensland. The Bulletin Board is a website operated by AEMO that contains a mix of short and medium-term market and system information for a range of facilities involved in the supply, delivery and use of gas in the east coast that can be used to inform shorter-term decisions by market participants (see Part 18 of the NGR).

23 Notice of closure rule change request, p 16.

24 ECMC, Consultation on stage 2, accessed 3 February 2025.

25 Communique, *Energy and Climate Change Ministerial Council Meeting*, 6 December 2024, pp 2-3. See section 1.2.2 of the Background Paper.

1.4 We have started the rule change process

This paper is the first stage of our consultation process.

A standard rule change request includes the following formal stages:

- a proponent submits a rule change request
- the Commission commences the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

Information on how to provide your submission and other opportunities for engagement is set out at the front of this document.

You can find more information on the rule change process on our website.[26]

To **make a decision** on this proposal, we seek stakeholder feedback on how we propose to assess the request, the stated problem, and the proposed solutions.

26 See our website: https://www.aemc.gov.au/our-work/changing-energy-rules

2 The problem raised in the rule change request

This chapter seeks stakeholder feedback on the problem identified in the rule change request whether it is or will soon become a problem and if so, the scale and impact of the problem. It summarises the issue raised in the rule change request, which is the absence of reporting requirements and the implications of that on the ability of market participants to respond in a timely, informed, and efficient manner to any reliability of supply adequacy threats.

2.1 The absence of reporting requirements could limit the ability of market participants to respond in a timely, informed, and efficient manner to any reliability of supply adequacy threats

The proponent states that the energy transition will change the role of natural gas in the energy mix and could trigger the closure of some natural gas supply and delivery infrastructure including production, transmission pipelines, compression, and storage facilities. The proponent acknowledges that while this has not been an historical issue in the ECGS, they believe that the size and scope of the energy transition means a proactive regulatory approach should be required to ensure any RSA risks associated with the closure of such infrastructure are signalled early to the market.

The proponent believes that the absence of advanced reporting requirements for the closure of gas supply and delivery infrastructure in the rules could adversely affect the market. Having incomplete, inaccurate, or asymmetric information could:

- limit the ability of market participants to plan and respond in an informed and efficient manner to any threats associated with any closures [27]
- affect the efficiency with which gas supply and delivery infrastructure and resources are allocated, ultimately impacting the reliability of supply for the ECGS[28]
- impact the National Electricity Market (NEM) and electricity supply because gas powered generators (GPG) may also be impacted.[29]

The proponent states that, even though it is difficult to quantify the effects of an absence of advanced notice of closure,[30]if these issues materialise it could result in greater reliance being placed on AEMO to address RSA threats by using more interventionist tools (i.e. directions or the proposed supplier of last resort arrangements.[31] While the proponent states that these tools have an important role to play in the RSA framework, a market-led response (informed by advanced information on planned closures) would lead to a more efficient outcome than intervention by AEMO.[32]

Question 1: Do you agree that not having sufficient advance notice of the closure of gas supply and delivery infrastructure could have a material impact on the reliability of supply of the ECGS?

27 Rule change request, p.19.
28 Rule change request, p.19.
29 Rule change request, p.10.
30 Rule change request, p.10.
31 Rule change request, p.10.
32 Rule change request, p.10.

2.1.1 None of the current monitoring and communication tools provide market participants with information on planned closures of supply and delivery infrastructure

While the current NGR provides a range of monitoring and communication tools to help identify and signal supply threats to the ECGS (see table 2.1 below), the proponent states that none of them currently provide market participants with information on planned closures of supply and delivery infrastructure on anything more than an annual basis, if reported at all.

The proponent notes that considering the long lead times for new gas supply and infrastructure projects, none of the current NGR reporting and communication tools provide long enough notice of a closure:

> Annual updates of closures are unlikely to provide market participants sufficient notice to make informed and efficient decisions on how to respond to the reliability and supply adequacy risks associated with such closures.
>
> However, it is generally accepted, and was noted through consultation on the Stage 2 reforms, that new gas supply and infrastructure projects can take 3-5 years from inception to commissioning. This means there is insufficient lead time provided through the current medium-term capacity outlook reporting to allow market participants to respond to a closure without risking supply and price shocks for energy consumers.

Table 2.1: Current NGR monitoring and communication tools

	Purpose (short, long, medium, forecasting, planning)	Does it provide information on planned closures	Publication frequency
Gas Statement of Opportunities (GSOO)	A longer term forecasting and planning tool that is prepared by AEMO. Provides a static point in time assessment of the adequacy (or otherwise) of supply and the infrastructure involved in the supply of gas to meet forecast east coast demand and to signal where investment may be required.	AEMO may obtain information on planned reductions in capacity or retirements of supply and delivery infrastructure through the GSOO process, but there is no requirement for it to publish this information.	Annually. Note: while AEMO can publish a 'supplement' to the GSOO within the year (rule 135KD of the NGR), it is only required to do so if 'significant and verifiable new information relevant to the GSOO is brought to AEMO's attention'. Depending on the infrastructure that is closed, this test may not be met and any changes that occur within the year may not be signaled to the market until the next GSOO is published. In this regard, it is worth noting that over the

	Purpose (short, long, medium, forecasting, planning)	Does it provide information on planned closures	Publication frequency
			last 5 years, AEMO has only published one intra-year update to the GSOO.
Victorian Gas Planning Report (VGPR)	A longer term forecasting and planning tool that is prepared by AEMO in relation to the Declared Wholesale Gas Market. Provides a static point in time assessment of the adequacy (or otherwise) of supply and the infrastructure involved in the supply of gas to meet forecast east coast demand and to signal where investment may be required.	AEMO may obtain information on planned reductions in capacity or retirements of supply and delivery infrastructure through its VGPR process, but there is no requirement for it to publish this information.	Annually. Note: while the NGR only requires the VGPR to be published every 2 years, AEMO has published the VGPR annually.
The Bulletin Board	A website operated by AEMO that contains a mix of short and medium term market and system information for a range of facilities involved in the supply, delivery and use of gas in the east coast that can be used to inform shorter term decisions by market participants (see Part 18). A requirement to report nameplate rating information for Bulletin Board facilities and information about any planned permanent capacity reduction due to modification of the BB facility (rule	Rule 168 – Nameplate rating information: BB reporting entities must provide to AEMO the nameplate rating of each of its BB facilities annually. A BB reporting entity must update the information provided under rule 168 if there is a material change in a nameplate rating, or if the information is no longer accurate. Planned permanent capacity reductions must be reported, but this currently only applies to capacity reductions 'due to modification of the BB facility' (including	Updated as required.

	Purpose (short, long, medium, forecasting, planning)	Does it provide information on planned closures	Publication frequency
	168(1)).	maintenance and planned reductions and expansions of capacity) for a 24-month outlook period. Does not require BB facility operators to clearly state if a reduction in the facility's capacity to zero is only temporary or due to permanent closure. A closure may arise for reasons other than a modification of the Bulletin Board facility Not explicitly required to provide information about planned closures.	
Part 27	The new Part 27 information disclosure and communication tools, which have been implemented in Stage 1 RSA reforms enable AEMO to monitor the reliability and adequacy of supply in the east coast.	Not required.	Rolling 7-day and 6-month outlook period.
Winter readiness plan for the Victorian Declared Wholesale Gas Market (DWGM)	AEMO publishes an annual winter readiness plan for the Victorian Declared Wholesale Gas Market.	Not required.	Annual publication on the request of Ministers.

Source: Rule change request, pp.8-10.

Question 2: Do you agree that current requirements for updates of closures are unlikely to provide market participants sufficient notice to make informed and efficient decisions on how to respond to the reliability and supply adequacy risks associated with such closures?

3 The proposed solution and implementation considerations

This chapter seeks feedback the proposed solution and implementation matters raised in the rule change request:

- Section 3.1 - We are seeking feedback on the overarching benefits of advanced notice of closure requirements
- Section 3.2 - We are seeking feedback on what would be an appropriate scope for the notice of closure arrangements
- Section 3.3 - We are interested in your feedback on the three options identified for consideration
- Section 3.4 - We are interested to know if there are any other options the Commission should consider.

3.1 We are seeking views about the overarching benefits of advanced notice of closure requirements

According to the proponent, the benefits of having an advanced notice of closure obligation are that it could:

- contribute to greater reliability
- reduce the need for more interventionist methods to manage reliability.

We are interested in stakeholder views about these benefits which are discussed below.

3.1.1 By providing more transparency it is proposed that an advanced notice of planned closure obligation could contribute to reliability

The proponent states that the proposed rule is expected to benefit market participants by providing them with more timely and transparent information on planned supply and delivery infrastructure closures. It would also support improved forecasting through improved alignment with the GSOO, VGPR and proposed gas PASA (being proposed as a separate rule change request), enabling more informed and efficient planning and investment decisions by market participants and governments.[33]

This could facilitate timelier and more efficient decision-making and market led responses, which could directly benefit individual market participants, gas consumers and the market more generally, by allowing market participants to:

- Make more timely, informed, and efficient consumption, production, infrastructure use and investment decisions in relation to:
  - supply and delivery infrastructure that is closing
  - replacement sources of supply (covered gas or other lower emission energy sources) and delivery infrastructure
  - their own facilities, which could involve implementing energy efficiency measures to reduce their covered gas consumption or switching to lower emission energy sources.

33 Rule change request, p.16.

- Respond in a more timely, informed, and efficient manner to any reliability or supply adequacy threats that may be associated with the closure and, therefore, limit the need for more costly and potentially distortionary interventions by AEMO.

The proponent states that the proposed rule would also result in significant indirect benefits, by avoiding the reliability and supply adequacy threats, inefficient decision-making and inefficient allocation of resources that may be associated with an unanticipated closure of supply and delivery infrastructure, the costs of which would ultimately be borne by gas consumers.

3.1.2 It is proposed that an advanced notice of planned closure obligation could benefit market participants by reducing the need for more interventionist methods

The proponent considers that the proposed rule is expected to benefit market participants, gas consumers, electricity consumers via GPGs and the market more generally, because it would provide for more timely, informed, and efficient decision-making. This would allow for better market-led responses to planned closures. It would also avoid the costs, inefficiencies and reliability and supply adequacy threats that may otherwise be associated with planned closures that, in the absence of the proposed rule, would not be clearly signalled to the market.

In effect, the proponent states that an advanced notice of planned closure could facilitate more timely and efficient responses by market participants and could reduce the need for AEMO to intervene to address reliability or supply adequacy threats through the use of more interventionist tools (e.g. by issuing directions) that could have a range of adverse effects on the market.

The Commission is interested in stakeholder feedback

The Commission is interested in stakeholder feedback on the proposed benefits articulated above. In particular, we are interested in views on how these proposed benefits could change or be diminished if, due to practical realities. We encourage participants to reflect on analogies with the NEM arrangements.

For example, the NEM generator notice of closure obligation allows for generators to amend their closure date to a date later than but no earlier than the most recent closure date provided to AEMO except where the amended closure date is no earlier than 42 months from the amended date unless granted an exemption by the Australian Energy Regulator (AER).[34]

Question 3: Do you agree with the proposed benefits of an advanced notice of closure requirement? Why/why not?

3.2 We are seeking views on what would be an appropriate scope of the notice of closure obligation

The proponent:

- has suggested that the scope of the obligation should be restricted to gas supply and delivery infrastructure, and not broadened out to large users
- is not convinced that the rule would need to include clauses to address the risk of being penalised for good faith estimates as they believe this is already provided for under the NGR.

34 NER, c2.10.1(c3)(1-2).

The Commission is interested in stakeholder feedback on these matters relating to scope which are set out in more detail below.

3.2.1 The proponent believes large users should not be subject to an advanced notice of closure requirement

Based on initial consultation undertaken by the proponent[35] some stakeholders have suggested if advanced notice of planned closures is implemented, large users should also be subject to the requirement. The proponent notes that a significant subsection of large users, GPGs, are already subject to this requirement in the NEM through the notice of closure requirements on generators.

As such, the proponent believes that a need for the requirement to apply to other large user infrastructure is less clear at this stage. While large users may close their facilities, the proponent states that this is unlikely to pose a material risk to the reliability or adequacy of supply in the market, and could in fact improve reliability in the short term. Therefore, the proponent considers extending the requirement to large users is unnecessary.

3.2.2 The proponent believes the NGR already mitigates the risk against being penalised for good faith estimates

During the proponent's initial consultation[36] several stakeholders noted the potential for entities to face:

- indirect costs by being penalised if good faith estimates do not eventuate due to operational changes and
- perverse incentives to provide inaccurate closure dates to avoid the risk of any potential penalty, but then delay closure.

The proponent has stated that the NGR already mitigates these risks through the Bulletin Board information standard. The proponent states:

> Rule 165(1) provides that where a BB [Bulletin Board] reporting entity is required by Part 18 or the BB procedures to give information to AEMO, it must be done in accordance with the 'BB information standard'. This information standard is a tier 1 civil penalty.
>
> Rule 165(2) provides the BB information standard for information or data relating to a: *BB facility means the practices, methods and acts that would reasonably be expected from an experienced and competent person engaged in the ownership, operation or control of a BB facility in Australia of that type; in each case, acting with all due skill, diligence, prudence and foresight and in compliance with all applicable legislation (including these rules), authorisations and industry codes of practice.*

The rule change request states that under the proposed rule, a facility operator would not contravene the NGL or the NGR in failing to provide the closure information by the required date, if the operator acted in accordance with the Bulletin Board information standard. Whether or not there has been compliance with the Bulletin Board information standard would be fact-specific and depend on the conduct of the Bulletin Board facility operator as compared against the conduct that would reasonably be expected from an experienced and competent person in the same position.

35 Energy and Climate Change Ministerial Council, Consultation on stage 2 of the reliability and supply adequacy framework for the east coast gas market, accessed 3 February 2025.

36 Rule change request, p.11.

Further the proponent states that the provision of information in good faith is protected through section 226(1) of the NGL– Immunity of persons giving information to AEMO or AER.[37]

Question 4: Do you agree with the proposed scope of the advanced notice of closure requirement? Why/why not?

3.3 We are interested in views on the three options identified for consideration

As part of the consultation on Stage 2 of the RSA framework, Officials sought feedback on a potential advance notice of closure for supply and delivery infrastructure and the form it might take.

This feedback helped to identify three options proposed by the proponent to address the problem with the current rules:

1. **Option 1:** Amend the GSOO provisions in Part 15D of the NGR and VGPR provisions in Part 19 of the NGR to require AEMO to report on planned closures of supply and delivery infrastructure with at least 36 months notice.
2. **Option 2** (the proponent's preferred option): Amend the Bulletin Board medium term capacity outlook provisions in Part 18 of the NGR to require supply and delivery infrastructure operators to report on planned permanent closures with at least 36 months notice.
3. **Option 3:** Include a new part in the rules that requires a notice of closure of supply infrastructure and largely mirrors the requirements in the NEM. This would provide at least 42 months advanced notice of closure.

We are interested in views about these options which are set out in more detail in the sub-sections below.

Option 1 - Amend the GSOO reporting requirements

Option 1 involves the proposed closures being reported through the GSOO. The proponent states that this would require GSOO provisions in Part 15D of the NGR to be amended to require AEMO to report on planned closures of supply and delivery infrastructure with at least 36 months notice.

The proponent is proposing 36 months as the notice period based on their initial consultation on the Stage 2 reforms. Feedback from stakeholders noted that new gas supply and infrastructure projects can take three to five years from inception to commissioning.[38] The proponent believes that having a notice of at least 36 months prior to closure could provide market participants sufficient time to make informed and efficient decisions about how to respond and mitigate the impacts of the closure, as well as enable governments to make more informed policy decisions.[39]

The expected costs, possible benefits, and implementation considerations

The Commission notes that the main benefit of this option is that the GSOO already exists and is a well-established reporting tool. For this reason, this option would likely be a low cost option to

37 Rule change request, p.20; *A person who gives Bulletin Board information to AEMO or the AER does not incur any civil monetary liability for an act or omission in giving that information unless the act or omission is done or made in bad faith or through negligence.*

38 Rule change request, p.12.

39 Rule change request, p.16.

implement. However, the Commission agrees with the proponent that the main limitation with this option is that the GSOO is only published annually.

The proponent notes that the annual (in March) publication of the GSOO could limit the ability of market participants to respond in a timely and efficient manner to any planned closures. For instance, they note that if a producer decided in April 2024 that it would close its production facility in three years' time, market participants may only become aware of this in March 2025, giving them just two years to respond to the planned closure.[40]

While the proponent notes that AEMO can publish a 'supplement' to the GSOO within the year (rule 135KD of the NGR), it is only required to do so if 'significant and verifiable new information relevant to the GSOO is brought to AEMO's attention'. Depending on the infrastructure that is to be closed, the proponent states that it is uncertain whether this test would be met and that any changes that occur within the year would not be signalled to the market until the next GSOO is published. Further the proponent notes that in this regard, over the last five years, AEMO has only published one intra-year update to the GSOO.[41]

Due to this limitation, the proponent believes that this approach may limit the options available to the market participants (including the options to reduce demand, switch to alternative energy sources, or underwrite the development of new supply projects) and could lead to threats to the reliability or adequacy of supply that must be addressed through more interventionist and less efficient means.[42]

Option 2 – Amend the Bulletin Board Medium-term capacity reporting requirements

Option 2 is the proponent's preferred option, and it involves planned closures being reported as part of the medium term capacity outlook reporting requirements in the Bulletin Board. This would require that the Bulletin Board medium term capacity outlook provisions in Part 18 of the NGR, which currently require reporting over a 24-month outlook period, could be amended to require supply and delivery infrastructure operators to report on planned closures with at least 36 months notice.[43]

Specifically, the proponent notes that changes would need to be made to rule 181 and the definitions in rule 141. The rule change request notes, at a high level, these changes would involve the following[44]:

- **Rule 181—Medium-term capacity outlooks for Bulletin Board facilities excluding Bulletin Board large user facilities:**
  - Inclusion of a new requirement that operators of Bulletin Board facilities (excluding Bulletin Board large user facilities) must report on planned closures of their facilities at least 36 months prior to the planned closure date through the Bulletin Board (with information to be reported on the date of the planned closure). This requirement is intended to be separate to the existing requirement in rule 181 for Bulletin Board facilities to report on the medium-term capacity outlook over a 24-month outlook period. (That is, Bulletin Board facility operators will be expected to continue to report the existing

40 Rule change request, p.12.
41 Rule change request, p.12.
42 Rule change request, p.12.
43 A notice period of 36 months aligns with the proponent's initial stakeholder feedback including feedback observing that gas infrastructure projects require 3-5 years lead time.
44 Rule change request, pp14-15.

information specified in rule 181 over a 24-month outlook period, while information on planned closures would be reported over a 36-month outlook period.)

- Inclusion of a requirement that any changes to the planned closure (including the timing of the planned closure) are to be reported as soon as practicable and in accordance with rule 165(3).
- As with other Bulletin Board reporting requirements, this information would be subject to the Bulletin Board information standard in rule 165 and the applicable penalty provisions.[45]
- Consistent with the current application of rule 181, the requirement to report a closure should apply to facilities meeting the current definition of 'Bulletin Board facility' in rule 141, except for a Bulletin Board large user facility. That is, all production, transmission pipeline, compression and storage facilities that meet the reporting threshold (i.e. facilities with a nameplate rating of 10 TJ/day or more) that are not otherwise exempt from reporting on the Bulletin Board.

- **Rule 141—Interpretation**
  - Create a definition for 'closure' with the effect that a closure is the cessation of the supply of natural gas or natural gas services by the Bulletin Board facility. This definition should capture permanent closures, including through decommissioning of assets, but should not capture changes in capacity due to maintenance, refurbishment, or other modifications.
  - A consequential amendment to the definition for 'medium-term capacity outlook' may be needed, to ensure the closure reporting time frame of 36 months is reflected, although, as noted above, the intention is not to extend the reporting requirement for all other aspects of the medium-term capacity outlook.
- Inclusion in the Bulletin Board of a field clearly identifying if a permanent closure has been reported or a permanent closure date amended. Consideration could also be given by AEMO, as operator of the Bulletin Board, to flagging reported closures and amendments to reported closure dates, more broadly to market participants.
- If the Bulletin Board Procedures are to be relied upon to specify any additional detail on how this information is to be reported, then it is possible that amendments to rule 135EA(2) in Part 15B may also be required.
- Any necessary adjustments to Rules and Procedures to ensure reports of planned closures inform and build on the longer-term planning signals provided through the GSOO and VGPR forecasts.

The expected costs, possible benefits, and implementation considerations

The rule change request states that while there could be some incremental costs associated with the proposed rule, they are expected to be very small.[46] For instance:

- The costs to the supply and delivery infrastructure operators that would be subject to the proposed rule are expected to be very small because:
  - the operators are already Bulletin Board reporting entities and, as such are subject to similar reporting obligations (including the obligation to report on uncontracted capacity over an equivalent 36-month reporting period)
  - the operators already have existing reporting systems in place to meet Bulletin Board reporting obligations.

45 Key penalty provisions include: Section 223 of the NGL, Rule 165(1) and Rule 165(4) of the NGR; Rule change request, p.14.

46 Rule change request, p.19.

- The operators should have a high degree of confidence in whether the infrastructure will be operational in three years or not (which would be evident via their intention to offer services to market participants) and so should be well placed to report this information.
- Planned closures are expected to occur relatively infrequently, so the overall impact is expected to be minimal.
- The incremental costs to AEMO as Bulletin Board operator are also expected to be small because the infrastructure operators that would be subject to the reporting obligation are already registered as Bulletin Board reporting entities.
- The incremental costs to the AER in monitoring and enforcing compliance with the reporting requirement are also expected to be relatively small, because it has existing monitoring and enforcement frameworks in place.

As such according to the proponent the main benefits of this option are that the Bulletin Board:

- has an existing reporting and penalty framework that can be utilised
- information on planned closures would be published in a timely and readily accessible manner
- this approach would benefit supply and delivery infrastructure operators, because they are familiar with the existing reporting framework and have existing systems in place to meet their Bulletin Board reporting obligations
- it would avoid the need to develop and maintain a separate reporting platform.

Option 3 – Mirror the NEM notice of closure framework

Option 3 is modelled on the NER, which requires operators to provide notice of an intention to cease to supply or acquire electricity or trade directly in the market (clause 2.10.1 of the NER). The NER provides for a range of conditions that must be met by operators including[47]:

- closures must be notified for both generating units closing entirely or in relation to one of more connection points
- a notified closure date must be no earlier than 42 months from the date of the notice (Tier 1 civil penalty applies)
- provision to provide an amended closure date that is no earlier than 42 months from the date of the amended notice is provided to AEMO
- operators can apply to the AER for an exemption to the requirement to notify a closure no earlier than 42 months.

The expected costs, possible benefits, and implementation considerations

The proponent has noted that while elements of the existing notice of closure framework in the NEM may warrant consideration (see **section 2.1.2**), this option is quite complex, rigid, and costly.[48] It would require a large number of changes to be made to the NGR and governance arrangements to implement - including providing the AER a new role in assessing exemption applications. It would also require new reporting systems to be implemented by reporting entities.

Overview of notice of closure obligation in the NEM

Since 1 September 2019, generators have been required to provide at least 42 months advance notice of their intention to close, unless granted an exemption by the AER.[49] This requirement was implemented to proactively address the reliability and supply adequacy threats associated with

47 Rule change request, p.13.
48 Rule change request, p.13.
49 Under the NER, operators must provide notice of an intention to cease to supply or acquire electricity or trade directly in the market, clause 2.10.1.

the closure of generators, by providing market participants with greater transparency of planned closures and more time to factor this into their contracting, investment, and operational decisions. See **Box 1** for information on design features of the NEM generator advanced notice of closure obligation.

The proponent argues that it is possible therefore that a similar obligation in the east coast gas market could help reduce the information asymmetry market participants may otherwise face in relation to planned production, pipeline, compression and storage facility closures.

Box 1: Key design features of the NEM generator advanced notice of closure obligation

- Scheduled Generators, Semi-Scheduled Generators and Scheduled Integrated Resource Providers (each being registered participants) must notify AEMO if they wish to terminate any of their classifications of generating units or bidirectional units.
- When providing such a notice, they must specify (among other things) a date by which they will cease to supply or acquire electricity or trade directly in the market whether entirely or in relation to one or more connection points (the "closure date").
- Closure dates cannot be earlier than 42 months from the date of the notice, unless they have been granted an exemption by the AER.
- Amendments to the closure date cannot be any earlier than the most recent closure date provided to AEMO, except where the amended closure date is no earlier than 42 months from the date the amended notice was provided or an exemption is granted by the AER.
- AEMO to consider and incorporate expected closure year and closure dates notified by generators as part of the Electricity Statement of Opportunities (ESOO).
- AER to maintain notice of closure exemption guideline: which include the information to be provided by a generator in an exemption application and procedures for handling applications.
- AEMO to maintain and publish an up to date list of expected closure years and closure dates for generating units on its website
- The Reliability Panel has the discretion to identify specific energy constraint scenarios to be included for study for the purposes of preparing the Energy Adequacy Assessment Projection (EAAP).

Source: National electricity rules, clause 2.10.1; AEMO, 2024 Electricity Statement of Opportunities, p.10; AER, Generator notice of closure exemption guidelines, https://www.aer.gov.au/industry/registers/resources/guidelines/generator-notice-closure-exemption-guideline; AEMO, Generation Information, https://wa.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-planning-data/generation-information;

The Commission is interested in stakeholder views

The Commission is interested in whether stakeholders believe any of the design elements of the NEM generator advanced notice of closure obligation should be considered in this rule change process. Additionally, the proponent has singled out two of the design elements of the NEM notice of closure requirement for consideration in this rule change process,[50] specifically the proponent has suggested:

- Considering provisions for reporting partial closures or closures of sub components of key gas supply and delivery infrastructure *'…whether entirely or in relation to one or more connection points' (clause 2.10.1(c1)(1)(ii)(B) of the NER) (i.e. partial closures or closures of sub components of key gas supply infrastructure).*

50 Rule change request, p.15.

- Whether the AER should develop an exemption framework.

Question 5: Do you think any of the design elements of the NEM notice of closure requirements should be adapted and applied to a gas notice of closure requirement?

The proponent's preferred approach

Of the identified options, Option 2 is the proponent's preferred because, in their view, it would provide the greatest transparency of planned closures, while also providing a relatively 'light touch' approach by using the existing Bulletin Board reporting and penalty framework. The proponent believes that this would minimise costs and impacts on affected parties without compromising the benefits of improving transparency around planned closures.

Question 6: What are your views on the expected costs and benefits of the proposed three options? Do you agree that option two (the proponent's preferred approach) is the best solution to address the issue raised by the proponent? Why/why not?

Question 7: Do you agree that 36 months is the correct amount of time to provide an advanced notice? Why/why not?

3.4 We are interested to know if there are any other options the Commission should consider

Stakeholders should consider the problem and solutions (the three options) presented by the proponent by thinking about the market failure that these options are proposing to address.[51] Stakeholders should also consider whether the options being proposed are required to achieve the objective of the rule change request. The analysis provided in the 2025 GSOO may also be relevant in considering the rule change request.

It might be possible to address the issue being presented by the proponent by not having to implement the proposed solution. The Commission is interested in whether any stakeholders think any variations to what has been proposed could be a feasible alternative to solve the problem presented.

Question 8: Do you consider any variation or alternative to the proposed solution could solve the issue raised by the proponent?

51 See **Appendix A** for more information on market failures that could lead to reliability issues and possible options to address them.

4 Making our decision

When considering a rule change proposal, the Commission considers a range of factors.

This chapter outlines:

- issues the Commission must take into account
- the proposed assessment framework
- decisions the Commission can make

We would like your feedback on the proposed assessment framework.

4.1 The Commission must act in the long-term interests of consumers

The Commission is bound by the National Gas Law (NGL) to only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national gas objective.[52]

The NGO is:[53]

> to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to—
>
> (a) price, safety, reliability and security of supply of natural gas; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The emissions targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NGO.[54]

4.2 We propose to assess the rule change using these three criteria

4.2.1 Our regulatory impact analysis methodology

Considering the NGO and the issues raised in the rule change request, the Commission proposes to assess this rule change request against the set of criteria outlined below. These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request. We consider these impacts within the framework of the NGO.

The Commission's regulatory impact analysis may use qualitative and/or quantitative methodologies. The depth of analysis will be commensurate with the potential impacts of the proposed rule change. We may refine the regulatory impact analysis methodology as this rule change progresses, including in response to stakeholder submissions.

Consistent with good regulatory practice, we also assess other viable policy options - including not making the proposed rule (a business-as-usual scenario) and making a more preferable rule - using the same set of assessment criteria and impact analysis methodology where feasible.

52 Section 291 of the NGL.
53 Section 23 of the NGL.
54 Section 72A(5) of the NGL.

4.2.2 Proposed key assessment criteria and rationale

The proposed key assessment criteria and rationale for each, and questions the Commission will consider when assessing the rule change request are set out below.

- **Safety, security and reliability: outcomes** – are central to the rule change request, as the intent is to maintain or improve the reliability and security of supply of gas.
  - Would the proposed rule change enable reliable, secure and safe provision of energy at efficient cost to consumers over the long term?
- **Principles of market efficiency: transparency** - this could increase transparency and could further reduce information asymmetry.
  - Would the proposed rule change increase information transparency and reduce information asymmetry?
- **Principles of good regulatory practice: consider broader direction of reform** - it considers the broader direction of reforms associated with the RSA framework (stage 1 and 2).
  - Would the proposed rule change interact constructively with other reforms underway?

The Commission's guide on *How the national energy objectives shape our decisions* sets out further information on how rule change requests are assessed against the national energy objectives, including the full list of potential assessment criteria.[55]

Question 9: a) Do you agree with the proposed key assessment criteria? b) Are there additional criteria that the Commission should consider or criteria included here that are not relevant?

4.3 We have three options when making our decision

After using the assessment framework to consider the rule change request, the Commission may decide:

- to make the rule as proposed by the proponent[56]
- to make a rule that is different to the proposed rule (a more preferable rule), as discussed below, or
- not to make a rule.

The Commission may make a more preferable rule (which may be materially different to the proposed rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NGO.[57]

4.4 Making a more preferable rule

Under s. 296 of the NGL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NGO.

55 AEMC, *How the national energy objectives shape our decisions*, p. 2.
56 The proponent sets out its proposed rule in **section 3.1** of the rule change request.
57 Section 296 of the NGL.

4.5 Rule making in Western Australia - NGR

The versions of the NGL and NGR that apply in Western Australia differ from the NGL and NGR as they apply in other participating jurisdictions.[58] As a result, the Commission's power to make rules for Western Australia differs from its rule making power under the NGL. For example, there is no express power for the Commission to make a Rule in WA that confers a function on AEMO. The Commission will take these differences into account in the process of considering the proposed rule or a more preferable rule.

58 Under the National Gas Access (WA) Act 2009 (WA Gas Act), a modified version of the NGL, known as the National Gas Access (Western Australia) Law (WA Gas Law), was adopted. Under the WA Gas Law, the National Gas Rules applying in Western Australia are version 1 of the uniform NGR as amended by the SA Minister under an adoption of amendments order made by the WA Minister for Energy and by the AEMC in accordance with its rule making power under section 74 of the WA Gas Law. See the AEMC website for further information, https://www.aemc.gov.au/regulation/energy-rules/national-gas-rules/western-australia.

A Market failures that could lead to reliability issues and potential intervention options

This appendix describes the market failures that could lead to reliability issues in gas markets. The appendix also describes regulatory interventions (including information provisions like the one proposed in this rule change request) that could address such failures depending on whether the failure relates to the commodity market or the infrastructure required to deliver the commodity.

A.1 Market failures that could lead to reliability issues

In most markets for goods and services across the economy, there is no explicit, regulatory framework for the management of 'reliability'. Instead, the price mechanism is relied upon to match an efficient level of supply to demand. If market conditions change, with consumer demand increasing, or supply decreasing, the price mechanism will realign the quantities that consumers are willing to buy and producers are willing to sell. Increasing prices act as a rationing mechanism, allocating goods to those customers with the highest willingness and ability to pay. Increasing prices will induce additional supply, although this will be limited by existing capacity constraints. In the longer-run, higher prices will incentivise investment in new capacity.

There are common market failures that could lead to reliability issues in the gas markets. Those that appear to be relevant to the ECGS are:

- **Natural monopoly:** Natural monopolies are defined as a situation where multi-firm production is more costly than production by a single firm. This often occurs because there are significant economies of scale combined with high fixed costs of entry. It is possible that pipeline service providers could, in some cases, exercise market power by delivering inefficient levels of service standards (i.e. lower levels of reliability) to reduce costs and increase profitability. Furthermore, investments in gas transmission pipelines or storage facilities tend to be 'lumpy' (i.e. large and infrequent rather than smaller, incremental and more frequent). The need for large, lumpy investments can become a natural barrier to entry into the market and create or reinforce a natural monopoly situation. If additional market participants were able to overcome this barrier and undertake alternative investments, more competition to provide services from pipelines and storage facilities could occur. This could then result in lower prices compared to the scenario under a monopoly provider.
- **High impact-low probability (HILP) events:** High impact low-probability (HILP) events may lead to inadequate incentives for efficient infrastructure investment. This may be because market participants:

  a) Make poor estimates of costs and probabilities of HILP events. Customers are unwilling to pay a sufficiently high price to ensure reliable supply prior to a HILP event as they underestimate the probability of occurrence.

  b) do not expect to face the full cost of the HILP events. This may be because limited liability or force majeure contract clauses mean that suppliers do not face the full costs of failing to provide a reliable service when a HILP event occurs. Alternatively, suppliers and customers may expect governments to intervene in a crisis socialising costs which without intervention they would have borne themselves.
- **Regulatory risk:** The prospect of changes to regulation is an inherent problem in natural monopoly infrastructure as past investments, such as those in gas production, transportation

and storage, requires sunk investment. Once made, there is a risk that the value of the investment is expropriated. This reduces the incentive to undertake the investment in the first place. Two potential areas of regulatory risk include:

  - The 'rules' of the market changing unexpectedly in the future. For example, changes to emissions policy may reduce the market-based incentive for gas investments.
  - The existence of undefined price caps which might be applied in the future. For example, the government may intervene if the price of gas exceeds a certain threshold.

- **Information:** For efficient decisions to be made, market participants (and regulators) require good information. With respect to reliability, this relates to information about – for example – consumption, production, reserves and transportation infrastructure, now and into the future. Making this information readily available can increase transparency, reduce search costs, and avoid inefficient decisions made based on incomplete or inaccurate information.
- **Non-excludability and metering:** Under the operation of a wholesale gas market there is the potential opportunity for gas consumers to have their consumption metered in real (or near to real) time. However, a wholesale commodity market does not extend across all the ECGS and such metering is generally not available. This means that in practice customers cannot be exposed to real-time wholesale prices and, as a result, are not incentivised to respond to short-term fluctuations in the wholesale market. Therefore, when the demand-supply balance is tight, intervention through directed load shedding, instead of price-responsive reduction in demand, is required. It is also not technically possible — at least without additional equipment to overcome safety concerns — for suppliers to ration supply to certain customers who have expressed a willingness to be curtailed at a specified wholesale price. The combination of cumulative meters and the technical inability to exclude users from consuming gas has resulted in the charges to small gas users not reflecting short term changes in wholesale gas prices. This in turn results in demand for gas from these users not changing as prices change (that is, demand from these users is inelastic in the short term). In these circumstances the market – and prices – cannot be relied on to deliver efficient outcomes.
- **Geopolitics:** Risks associated with the direct and indirect impact of possible wars, sanctions, trade tensions and supply chain interruptions can disrupt the operation of a market. The nature of geopolitical effects on markets means that it can be expensive, or impossible, to obtain insurance cover for extreme events resulting from war, and in other contracts wars may be force majeure events. As a result, market participants may not account for the prospect of geopolitical risk in their decisions to invest in infrastructure, or supply or store a commodity such as natural gas.

A.2 Potential regulatory interventions that could be applied to specific market failures

Regulatory interventions in energy markets are common, reflecting the fact that there are readily identifiable market failures in the gas, liquid fuels and electricity sectors that impact on whether prices successfully manage demand and supply. Regulatory interventions may include explicit arrangements aimed at managing the reliability of services and/or infrastructure.

For any regulatory intervention to be effective, it should be tailored to the specific market failure intended to be addressed, by also considering whether the market failure relates to the commodity (e.g. gas supply) or the infrastructure needed to deliver that supply to meet demand (e.g. pipeline and storage capacity).

Table A.1: Market failures and potential regulatory interventions

	Intervention	Market Failure	Analysis
Commodity market options	More granular metering	Non-excludability and metering	With accumulation meters, there is no way to see when gas was actually used between meter reads. Gas used during a period of high prices and scarcity and gas used during a period of abundance are indistinguishable and customers are charged the same for each unit. During periods of scarcity, some customers would choose not to consume if exposed to the market price of gas. By allowing customers to choose when to forgo consumption rather than pay high prices, more granular metering enables customers to directly reflect their willingness to pay for a reliable supply. This option could address the non-excludability and metering market failure. In the absence of more granular meters, consumers cannot signal the value they place on a reliable service or commodity supply (e.g. gas).
	Price caps	Non-excludability and metering	In the absence of more granular meters, a centrally determined price should be set at a price where consumers would prefer to be curtailed rather than

	Intervention	Market Failure	Analysis
			supplied with a service. If a price cap is set too high, consumers may consume at a price greater than their willingness to pay. Conversely, if the price cap is set too low, consumers may be provided an inefficient low level of reliability. Price caps can be set directly at estimations of willingness to pay (WTP) to induce an expected efficient trade-off between the cost of curtailment (load shedding) and the cost of providing supply. However, estimating WTP can be difficult, creating the risk that the price cap is not accurate.
	Reliability standard	Information, non-excludability and metering	This type of intervention works by defining a reliability standard level to reflect the trade-off between the cost of providing a reliable supply and the value consumers place on a reliable service (VCR). The optimal level of reliability should balance the cost of load shedding and the cost to avoid load shedding. For a reliability standard to be effective, it needs to be set with regard to an estimated WTP (VCR or value of lost load - VoLL). This is so

	Intervention	Market Failure	Analysis
			that the level of the standard reflects the value consumers place on a reliable supply. A reliability standard could play a variety of roles: • a key input into the price caps (as in the NEM)—although price caps could be set directly to an estimated WTP/VCR/VoLL • as a trigger, limit or guide for further non-price interventions • a market information role to help signalling the potential occurrence and significance of threats to reliable supply.
	Non-price interventions	Non-excludability and metering	This could be in the form of direct government or system operator intervention in the market (either through the direct purchase of commodity gas or contracting with market participants). A challenge with these type of interventions is avoiding undermining the market's incentives to otherwise provide supply of a commodity.
	Information provisions	**Information**	**By market participants providing additional information to the**

	Intervention	Market Failure	Analysis
			market there can be an increase in more efficient decision-making. Increasing levels of market transparency can become costly for market participants and market bodies.
Infrastructure options	Reliability standards	Natural monopoly or HILP	This could be in the form of transmission or distribution pipelines having a requirement to report reliability on the same basis, allowing comparisons across networks. For example, in electricity networks, a reliability target is set and acts as a baseline that the network can be compared to and the regulator can observe.
	Infrastructure planning standards	Natural monopoly or HILP	This intervention would require the government to ensure that in the event of the disruption of the single largest gas infrastructure in the country that daily gas demand can be met. (e.g. N-1 standards).
	Infrastructure technical standards	Natural monopoly or HILP	Technical standards can be used to increase reliability of infrastructure. Requiring infrastructure to meet certain technical standards reduces the possibility of high impact events and reduces the ability of

	Intervention	Market Failure	Analysis
			monopolists to exercise their market power by reducing service standards.

B The east coast gas system

See Chapter 2 of the Background Paper for an overview of the ECGS and key features of the facilitated markets within this system. This includes a summary of the latest gas demand-supply outlooks produced by AEMO and the ACCC.

Abbreviations and defined terms

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ACCC	Australian Competition & Consumer Commission
Commission	See AEMC
DCCEEW	Department of Climate Change, Energy, the Environment and Water
DWGM	Declared Wholesale Gas Market
EAAP	Energy Adequacy Assessment Projection
ECGS	East Coast Gas System
ECMC	Energy and Climate Change Ministerial Council
ESOO	Electricity Statement of Opportunities
GBB or BB	Gas Bulletin Board or Bulletin Board
GPG	Gas Powered Generators
GSOO	Gas Statement of Opportunities
HILP	High impact low-probability
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
PASA	Projected Assessment of System Adequacy
Proponent	The proponent of the rule change request
RSA Framework	Reliability and supply adequacy Framework
VGDM	Victorian Gas Planning Report
VGPR	Victorian Gas Planning Report