



15 April 2021

AEMC Consultation: Review of the Gas Supply Guarantee

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure, with a focus on high-pressure gas transmission. APGA's members build, own and operate the gas transmission infrastructure connecting the disparate gas supply basins and demand centres of Australia, offering a wide range of services to gas producers, retailers and users.

APGA welcomes the opportunity to contribute to the AEMC review of the Gas Supply Guarantee (GSG), with responses provided in the attached AEMC Template.

APGA recommends that the AEMC review process results in no change to the current GSG framework. APGA advises against any additional codification of powers or obligations within the GSG. These recommendations are made on the following basis:

- The GSG has not been utilised; and
- The GSG provides adequate security until the Energy Security Board (ESB) Electricity Market Design process delivers a superior solution.

The National Gas Objective seeks *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 price, safety, reliability and security of supply of natural gas*. APGA believes that the GSG in its current state achieves this objective, with a superior solution anticipated through the ESB Electricity Market Design process.

To discuss any of the below feedback further, please contact APGA's National Policy Manager, Jordan McCollum, on +61 422 057 856 or jmccollum@apga.org.au.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read "JM", is positioned above the typed name of the sender.

JORDAN MCCOLLUM
National Policy Manager

Attachment 1: AEMC Review of the Gas Supply Guarantee Stakeholder Feedback Template

REVIEW OF THE GAS SUPPLY GUARANTEE STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

ORGANISATION: Australian Pipelines and Gas Association

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DATE 15 April 2021

QUESTION 1 – PROBLEM DEFINITION

1. Is there a problem with access to gas supply for gas-powered generators in the NEM over the timeframes required to make generators available to support system reliability? Are there any other problems that the Gas Supply Guarantee could solve?	APGA does not believe that there is evidence of any problem with access to gas supply for gas-powered generators in the NEM over the timeframes required to make generators available to support system reliability. This is on the basis that the GSG has not been triggered. APGA does not believe that there are any other problems which the GSG could solve.
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<p>2. The market dynamics in the east coast gas market and the NEM have changed since 2017. Do these changes impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	<p>As identified by the AEMC, both gas market investment and gas market reform have acted to improve liquidity within the east coast gas market. This change has impacted the issues which the GSG was introduced to resolve, reducing their likelihood through increasing liquidity.</p> <p>The "absolute urgency" of new policy and regulations to stop power supply failures identified by ESB Chair Kerry Schott speaks to the changing dynamics within the NEM. As identified within a recent Frontier Economics report, gas power generation (GPG) can play a critical role in delivering a cost effective, secure NEM with variable renewable electricity penetration above the 90% mark to best manage supply side system stresses such as renewable droughts once batteries and pumped hydro have been depleted.</p> <p>These dynamics are better addressed through the ESB electricity market design process, supported by the existing GSG up to an including through implementation of the ESB electricity market design within the NEM.</p>
<p>3. A number of regulatory reforms have occurred since 2017 as well as government initiatives. Do these changes impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	<p>These changes have impacted the issues which the GSG was introduced to resolve, reducing their likelihood through increasing liquidity.</p>
<p>4. Are there any other relevant changes that could impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	
<p>5. Do you see a scenario in which the Gas Supply Guarantee could be triggered?</p>	<p>Realistically, every operational GPG has flexible gas supply, transportation and storage agreements in place to respond rapidly to volatile electricity market circumstances. As such, the GSG is unlikely to be triggered.</p> <p>Scenarios in which the GSG may need to be triggered would broadly be those under consideration to be addressed by the ESB Electricity Market Design process.</p>

	This is not to say that it is expected that triggering of the GSG is likely in such events, rather that these may be the events in which triggering occurs.
a. What would be the drivers of such scenario?	Drivers would be many and varied, and generally under consideration within the ESB Electricity Market Design process.
b. What is the likelihood that such a scenario would occur?	The occurrence of such a scenario is considered unlikely due to the proficiency through which NEM connected generation is operated. Further, the likelihood that the GSG would be required is considered unlikely considering the NEM has weathered such events without the need for GSG style market intervention in the past.

QUESTION 2 – IMPACT OF THE PROBLEM

1. Under a scenario where issues arise in the NEM and gas market that might see the Gas Supply Guarantee triggered:	
a. What would the impact of not having the Gas Supply Guarantee in place be?	In this scenario with only the GSG removed, two constants remain. First, the NEM is still under the oversight of AEMO, who observe impending issues. Second, as in the past, the goodwill and swift actions of gas market participants and pipeline operators will ensure that if the gas can be made available, it will be made available.
b. How material would the impact of no Gas Supply Guarantee be?	For most incidents, the good will and swift actions of gas market participants and pipeline operators ensures that if the gas can be made available, it will be made available. There will be a small number of incidents in which the gas physically cannot be made available, in which the GSG could not make a material impact. The impact will only be both material and able to be materially impacted by the GSG in a small number of incidents. Specifically, these incidents would be where it is believed that the gas physically cannot be made available, but it actually physically can be.
c. Who, in the NEM and the east coast gas market, would be impacted?	Those impacted by such an incident would be many and varied.

QUESTION 3 – ASSESSMENT FRAMEWORK

<p>1. Do you consider the proposed assessment framework relevant for the AEMC to consider the value of the Gas Supply Guarantee (or an alternative mechanism)?</p>	<p>APGA are confident in the relevance of assessment frameworks developed by the AEMC.</p>
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QUESTION 4 – POTENTIAL SOLUTIONS

<p>1. Is the Gas Supply Guarantee mechanism fit for purpose? Why?</p>	<p>With the context of the existing and developing policy landscape, APGA do not have any concerns about the GSG being fit for purpose. APGA would prefer no change to occur to the current GSG mechanism</p> <p>Importantly, the GSG has been designed to maintain the need for GPG operators to enter contractual agreements for supply, transport and storage. Changing the GSG has potential to reduce the need for contractual arrangements, which would have significant impacts for gas markets.</p>
<p>2. Are there alternative solutions?</p>	<p>Up until such time as the ESB Electricity Market Design process delivers an outcome, APGA does not wish to see any amendment to the current GSG framework. APGA does not see any need for alternative solutions outside of the existing and developing policy landscape.</p> <p>If alternative solutions are proposed and progressed by the AEMC, APGA would like to contribute to the consideration and development of any such solution.</p>
<p>a. Are there rules in place, or under development (in the NER and/or NGR), that provide a better solution?</p>	<p>As alluded to throughout this submission, APGA note that the ESB Electricity Market Design process is expected to deliver electricity market reform resulting in superior solutions to the issues addressed through the GSG. The ESB process is considering generation capacity relative market mechanisms which are expected to change the way in which GPG interacts with the NEM. Maintaining the GSG in its current state until such time as ESB recommendation have been embedded within the NEM is considered a sound approach to market security through this transition.</p>

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	APGA anticipates that the focus of the ESB Electricity Market Design process is likely to produce a more suitable long-term solution to proactively address the issues which the GSG seeks to address.
b. Do other approaches or mechanisms (that are not rules-based) provide a better solution?	In general, APGA supports the approach of developing market-based solutions which lead to proactive action based on price signals and forward modelling.
c. How would each potential solution address the issues?	As the above responses are general in nature, APGA do not have an answer to this question.
d. Who, in the NEM and the east coast gas market, would be impacted by each potential solution?	As the above responses are general in nature, APGA do not have an answer to this question.