



Australian Government
Department of Industry, Science,
Energy and Resources

Ms Merryn York
A/g Chair
Australian Energy Market Commission
GPO Box 2603
Sydney 2001

Dear Ms York

As you are aware, Energy Ministers have been focussing on measures to ensure Australia's energy system remains affordable, reliable and secure.

The Gas Supply Guarantee (GSG) and the associated AEMO developed guidelines, remains an important mechanism as it ensures the availability of gas to meet the needs of generators during peak demand periods across NEM jurisdictions.

Energy Ministers have agreed that it is an opportune time for an independent assessment of the GSG mechanism and its operation across the NEM, to assess whether it should be retained and embedded in the national regulatory framework.

The attached, agreed Terms of Reference set out the purpose, scope and timeframe for undertaking this GSG review.

On behalf of the Energy Senior Officials, I would appreciate if the AEMC could lead this review and consult with other market bodies, industry and State and Territory governments as appropriate, and report back to Energy Ministers in early 2022.

I thank you for taking the time to undertake this work during this challenging time. If your staff wish to discuss this work further, please contact Michael Nelson, the manager of the Gas Markets Policy section in my Department at michael.nelson@industry.gov.au or call (02) 6243 7454.

Yours sincerely

Mr Sean Sullivan

Chair
Energy Senior Officials

9 September 2020

Review of the Gas Supply Guarantee

Terms of Reference

Background

Energy Ministers have been focussed on measures to accommodate and respond to changes in the way electricity is generated in the National Electricity Market (NEM) to ensure Australia's energy system remains affordable, reliable and secure.

In this context, there exists an important interaction between gas and electricity markets through the supply of gas for electricity generation. Reflecting this relationship, in March 2017, gas production facility operators and pipeline operators made voluntary commitments to ensure gas is delivered to where it needs to be to support peak demand periods in the NEM. To facilitate the delivery of these commitments, the Gas Supply Guarantee Guidelines (the Guidelines) were developed by the Australian Energy Market Operator (AEMO).

The Guidelines have been extended until March 2023.

As the effects of COVID-19 on the Australian community continue to manifest over the coming months, it remains imperative to ensure continued supply of gas to support peak demand periods. It is therefore timely to consider the value of this mechanism as it operates across the NEM.

Energy Ministers' Directed Review

Pursuant to section 79 of the National Gas Law (NGL) and section 41 of the National Electricity Law (NEL), Energy Ministers¹ request the Australian Energy Market Commission (AEMC) conduct a review of the Gas Supply Guarantee in accordance with these Terms of Reference.

These Terms of Reference, which have been developed in accordance with section 80 of the NGL and section 42 of the NEL are intended to guide how the AEMC undertakes this review.

Purpose

The purpose of this review is to advise Energy Ministers on:

- (a) whether there continues to be value in retaining a mechanism of this or similar type;
- (b) contingent on (a), whether, and in what form, such mechanism should be incorporated in the national energy framework.

Scope

In undertaking the review as outlined above, the AEMC are requested to consider the following:

- the scope of the Guidelines as developed and amended by AEMO;
- the manner in which the Guidelines have been utilised by AEMO, including in relation to industry engagement;

¹ The Energy Ministers are those responsible for energy matters all of whom are members of the legally enduring Ministerial Council on Energy (MCE).

- any overlap between the Guidelines and other existing reliability or security mechanisms in the national energy framework;
- the potential for the Guidelines, or other similar mechanism as identified by the AEMC, to support reliability in the National Electricity Market, or to otherwise provide value to consumers;
- the form any such mechanism should take (e.g. through changes to the national electricity and gas laws, or associated rules);
- the impact of any such mechanism on AEMO, the market and market participants (including the costs and benefits of any recommended approach) – such consideration should also take into account any current and enduring issues arising from the COVID-19 pandemic.

Consultation and timeframe

In undertaking the review, the AEMC must consult with AEMO, AER, the ACCC, industry and State and Territory governments.

The AEMC is requested to report back to Energy Ministers by Quarter 1, 2022.