

21 April 2021

Daniela Moraes
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2000

(via email to: aemc@aemc.gov.au)

GAS SUPPLY GUARANTEE CONSULTATION

Dear Daniela,

GLNG Operations Pty Ltd (**GLNG**) welcomes the opportunity to provide comment on the AEMC's Gas Supply Guarantee Consultation.

The GSG was introduced to ensure Production Facility Operators and Pipeline Operators make gas available to meet peak demand periods in the NEM, once AEMO assesses that a gas supply shortfall may occur in the NEM. GLNG supports this limited application of the GSG in its current form and would not support changes that could increase its scope or do more than the current objective to bring key market participants together to inform what is required to support the NEM and expedite discussions between those participants to ensure resolution.

It has become easier for AEMO and market participants to predict and identify well in advance if a potential gas shortfall in the NEM could occur through regulatory and government initiatives introduced since the GSG commitments were made in 2017; being transparency reforms, Gas Bulletin Board reporting, GSOO, ESOO and other NEM planning and reporting obligations (the latter referred to in the Consultation Paper). GLNG believes these changes and other developments in the gas market including increased liquidity in wholesale gas and pipeline trading markets, new gas suppliers entering the market, increase in location swaps, introduction of new trading points, will render the GSG unnecessary beyond its current expiry date of 31 March 2023, if not already

GLNG contends that other government and regulatory measures introduced along with market developments since 2017 are achieving the objectives of the GSG diminishing the continuing and future relevance of the GSG. The reforms include:

- The Heads of Agreement entered into between the three east coast LNG producers and the Federal Government (and recently extended to 2023) ensures LNG producers on the

P: +61 7 3838 3000
F: +61 7 3838 3350
E: glng.secretariat@glng.com

GLNG Operations Pty Ltd
ACN 132 321 192
Santos Place
Level 22 / 32 Turbot Street
Brisbane Q 4000 Australia

GLNG is a Santos PETRONAS Total KOGAS venture.



Australian east coast offer spot gas to the domestic market on reasonable notice and on competitive market terms.

- The Pipeline Trading Capacity and Day Ahead Auction reforms have increased the ability to transport more gas to market participants.
- The significant level of market information that is available via AEMO – NEM Generation Information, Integrated System Plan, ESSO, the GBB and the GSOO.

In addition, current government consultations and subsequent reforms are also likely to have further impact on the continuing relevance of the GSG. These consultations seek industry input on opening up new gas supply across gas basins in Australia, developing a National Gas Infrastructure Plan and increasing gas liquidity and trading at Wallumbilla Hub – see the Gas Fired Economic Recovery Consultation by DESIR which closed on 31 March 2021. These current consultations and reforms since 2017 address the issues that the GSG was introduced to resolve, in particular, ensuring there is gas available to the domestic market including during peak demand times and that this gas can be transported when and to where it is needed for generation in the NEM. These reforms do not support any short-term changes being made to the GSG such as extending or broadening its application beyond its current remit and questions the continued relevance of the GSG beyond 31 March 2023.

Since 2017, gas production in Queensland has increased, and new players have entered the gas trading market. The volume of gas required to meet the short term demands of gas generators in peak periods (often only for hours) is relatively small verses the total production on a day. Queensland has sufficient daily gas production to allow these volumes to be diverted at short notice to support the NEM. This has been assisted by the increase in investment in gas supply projects and in infrastructure. Improving security in the NEM will also be assisted by other energy and gas storage projects including large scale batteries and LNG import terminals which are forecast within the current term of the GSG.

It is also evident that market participants acknowledge and accept their responsibility to supply the domestic gas market and structure their supply portfolios and contracts to ensure the domestic market is supplied in peak demand times (outside of but meeting the GSG objectives). Our experience is that gas sellers and buyers are mature and have in many cases contracted flexibility into gas supply arrangements to enable short term or seasonal diversion of gas back to the domestic market when required. Queensland CSG LNG projects have responded to market signals in the past and have supplied gas to the southern markets; and they will continue to do so when required by the market. Pipeline operators can also provide short term support for gas shortages to balance demand through line pack and pipeline trading capacity. GLNG believes that it is vitally important that market-based solutions continue to be able to respond and correct gas shortfalls within the NEM.

Whilst it is recognized that in its current form, the GSG only forms a backstop mechanism for potential gas shortage in the NEM, an unintended consequence of any backstop is that market solutions such as flexible supply terms and high levels of supply coverage become less valuable due to the expectation that gas producers and pipeline operators will meet the GSG commitments if requested to do so – whether at the official request of AEMO under the GSG or unofficially through normal market negotiation and co-operation. Ultimately, where market signals are constrained by regulatory overlays the consequence is likely to be lower investment. Unintended regulatory consequences should be removed where they are contrary to the market development or the intended objective of that regulation.

The GSG mechanism in its current form is well understood by gas fired power producers, gas suppliers and pipeline operators. The power and gas markets have developed and matured significantly over a number of years, and market-based responses have developed such that the GSG has not been triggered since the commitments were made in March 2017 thus diminishing the ongoing need for this mechanism. Further market developments including large scale battery and LNG import terminals are forecast within the current term of the GSG.

There should be some caution exercised when considering whether to change the GSG prior to its end date in March 2023. The gas market has shown that it can operate effectively in such circumstances without government intervention. While GLNG is comfortable with the GSG continuing in its current form as a safeguard until its current expiry on 31 March 2023, GLNG would not support changes to its current scope or intent as to do so will run the risk of disincentivizing market based responses and solutions and importantly disincentivize future investment. GLNG believes that with the AEMO GSOO and ESOO anticipated developments in the power and gas markets over the next few years, any extension to the GSG beyond its current end date will be unnecessary and indeed may have a detrimental impact.

GLNG would welcome the opportunity to provide further input into proposed reforms.

Yours sincerely



Stephen Harty
Chief Executive Officer
GLNG Operations Pty Ltd



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: GLNG Operations Pty Ltd

CONTACT NAME:

EMAIL:

PHONE:

DATE 21 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?	GLNG believes there is sufficient gas supply available to the domestic market (or which can be diverted to the domestic market) to enable gas power generators in the NEM to have sufficient gas to operate at capacity in peak demand times. Given the large gas production base in Queensland and the relatively small short term demand that would be necessary to support short term system reliability issues in the NEM (which is the issue the GSG was established to address) there should be sufficient gas available for short term diversion to the gas powered generators
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	<p>when needed on commercial terms. Dependent where in the NEM the reliability issue is, there could be potential pipeline or indeed power interconnect that may already be at capacity on that shortfall day making either the delivery of gas from Queensland to a southern states power station or transmission of power from Queensland to the southern states constrained. The GSG in those instances may have limited ability to resolve the NEM reliability issue.</p> <p>The GSG was put in place in 2017 to create a forum that could be triggered by AEMO to ensure gas and power market participants understanding of an immediate power instability issue and facilitate the necessary expeditious commercial discussions to ensure additional gas supply flows and power is generated, to address the issue.</p> <p>It is important that the GSG does not create a backstop that distorts the commercial market signals that are necessary to drive ongoing investment and the necessary commercial market based and contractual solutions being developed.</p> <p>GLNG does not believe the GSG should be trying to solve further perceived problems and should not change in scope or form. GLNG believes changes that increase scope or form may have the negative effect of distorting those necessary market signals and disincentivising market-based solutions.</p>
<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>Since the GSG was introduced in 2017, there have been changes in market dynamics on the east coast of Australia including:</p> <ul style="list-style-type: none"> • Increased liquidity in wholesale gas and pipeline trading markets, albeit at a slower rate • New gas suppliers have entered the market and ongoing investment in the gas market is being encouraged by government (eg. Narrabri gas development and Port Kembla LNG import terminal) • There has been an easing of the moratorium on gas exploration in some jurisdictions to promote new gas developments and supply

	<ul style="list-style-type: none"> • Investment in gas pipelines including capacity enhancements and proposed establishment of the NGIP • Increase in use of locational gas swaps (being contractual flexibility to move gas) • The introduction of additional trading points in some of the key facilitated markets on the east coast • Significant new power generation developments both in renewables and batteries • Ongoing and significant gas production development in particular Queensland. <p>These changes are addressing the reliability issues in the NEM and are supporting the ongoing supply of gas into the domestic market, the ability to transport gas when and to where it is needed and ultimately the short term supply of gas to the power market to address the issues which the GSG was established to resolve.</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>Since 2017 there have been a number of regulatory and government reforms that affect the gas market participants and gas trading:</p> <ul style="list-style-type: none"> • The HOA was initially agreed between the three LNG producers and the Federal government in 2018. This was recently renewed until 2023 and ensures that LNG producers on the East Coast offer spot gas to the domestic market on reasonable notice and on competitive market terms • The Pipeline Capacity Trading Platform and DAA auction reforms have positively impacted the ability to move gas to where and when it is needed • The substantial information available to market participants through the GBB and other NEM reporting obligations (referred to in the Consultation Paper) • The maturing of AEMOs forecasting through the GSOO and ESOO • The further transparency reforms once made law under the NGR – changes in Gas Bulletin Board reporting will also ensure that AEMO and gas and electricity market participants have information to enable them to better predict electricity demand and gas required to meet that demand – or if there is likely to be a shortfall

	<ul style="list-style-type: none"> • The Federal Government’s consultation (through DISER) - the Gas Fired Economic Recovery Plan consultation is currently underway. Through this consultation the government is seeking industry input on opening new gas supply across gas basins in Australia, developing a National Gas Infrastructure Plan and making more gas available through a more liquid trading hub at Wallumbilla Hub • Gas acceleration program (referred to in the consultation paper) - accelerates the responsible development of onshore gas for domestic consumers. This includes new grants being offered to projects that have the greatest likelihood of securing new and significant volumes of gas for the domestic market • NSW Energy package (referred to in the consultation paper): In January 2020 the Federal government and NSW government agreed to set a target to inject additional 70PJ of gas per year into NSW – three priority projects identified to achieve this – including LNG import terminals – in particular the Port Kembla import terminal. <p>All these regulatory changes (and the outcome of ongoing consultations) all address the issues that the GSG was introduced to resolve. These mechanisms enable AEMO and market participants to better predict when a shortfall may occur, ensures on going gas supply into the domestic market and the transportation of that gas when and to where needed, including to gas generators in the NEM. The reforms now raise questions in relation to the ongoing relevance of the GSG in the current regulatory and political environment.</p>
<p>4. Are there any other relevant changes that could impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	<p>With the expected further investment in batteries, pump storage and LNG import terminal(s) the GSG mechanism should no-longer be required and GLNG believes should end at the current termination of 2023.</p> <p>Through the Federal government’s consultation on the Gas Fired Economic Recovery, the federal government is reviewing ways to improve liquidity across the Wallumbilla Trading hub, which will enable gas to be traded and for the market to operate more effectively without government and regulatory interference. Improved gas market liquidity would also provide increased access to spot gas supply for gas power generators to manage NEM reliability issues when they occur provided there are no constraints on the transportation of that gas. GLNG recognises that it may be some time before a mature and highly liquid trading hub is established in Australia for which</p>

	<p>GLNG believes the critical component will be to encourage greater investment in upstream gas production development.</p>
<p>5. Do you see a scenario in which the Gas Supply Guarantee could be triggered?</p>	<p>GLNG believes the GSG is unlikely to be triggered. GLNG believes with the maturing of the market including increased supply, increased short-term liquidity, greater market information, NEM and gas market developments and more mature contracting strategies, gas generators should be able to access the gas supplies they need in the vast majority of scenarios.</p> <p>Additionally, the quantity of gas that could be provided each day under the GSG is small relative to the level of production on the east coast. As such the east coast producers will generally have sufficient portfolio flexibility to cover this additional demand, and market forces should cause this to happen anyway without the GSG needing to be triggered.</p> <p>Should NEM reliability issues occur it is most likely they will occur in the southern states where due to various gas development moratoriums have restricted new supply. It is possible that where NEM reliability issues occur in the southern states any pipeline capacity constraints or power interconnector constraints on that day may lead to the GSG being unable to solve the issue. Expected new developments in the southern states such as battery capacity, pump storage and an LNG import terminal would alleviate these issues.</p>
<p>a. What would be the drivers of such scenario?</p>	<p>Per above</p>
<p>b. What is the likelihood that such a scenario would occur?</p>	<p>Per above</p>

QUESTION 2 – IMPACT OF THE PROBLEM

<p>1. Under a scenario where issues arise in the NEM and gas market that might see the Gas Supply Guarantee triggered:</p>	
<p>a. What would the impact of not having the Gas Supply Guarantee in place be?</p>	<p>Gas market participants recognise the importance to supply the gas power generation market and GLNG’s experience would suggest that supply portfolios and contracts have been structured to ensure gas supply and in particular during peak demand times (outside of but meeting the GSG objectives).</p> <p>Gas sellers and buyers are mature and have in many cases contracted flexibility into gas supply arrangements to enable short term or seasonal diversion of gas back to the domestic (including power) markets when required. Queensland CSG LNG projects have responded to market signals in the past and have supplied gas to the southern markets; and they will continue to do so when required by the market. Pipeline operators can also provide short term support for gas shortages to balance demand through line pack and pipeline trading capacity. As such the GSG has not been triggered since the commitments were made in 2017.</p> <p>Market based solutions have responded and corrected gas shortfalls within the NEM and have shown that the markets can operate effectively to support the NEM without government and regulatory intervention.</p> <p>To the extent that the GSG was not in place, GLNG believes these market-based solutions would continue to be put in place and market participants would continue to recognise the importance of maintaining a stable electricity network. Indeed, there may be greater emphasis by participants on the need for commercial arrangements.</p>

<p>b. How material would the impact of no Gas Supply Guarantee be?</p>	<p>As noted above there are a number of regulatory and government reforms that have been implemented since 2017 when the GSG commitments were made that diminish the relevance of and need for the GSG. Therefore, not having the GSG in place is not likely to have a significant impact on gas supply security and supplying the NEM. Retaining the GSG until its extended expiry of 31 March 2021 is more of a safeguard than a market necessity.</p>
<p>c. Who, in the NEM and the east coast gas market, would be impacted?</p>	

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>If the value of the GSG is to be assessed by AMEC against the proposed framework, then the elements of the proposed framework would seem reasonable. However, the framework focusses on assessing the cost of supply during critical peak demand periods in the NEM and does not place enough emphasis on other issues. Correcting a shortfall in gas supply to support the NEM generally involves the diversion of gas volumes for a short period of time and potentially at high rates (depending on the size of the shortfall). In this context the supply of that gas is more of a capacity issue rather than purely a commodity issue. The framework needs to consider supply of gas into the power market during short term reliability issues as a capacity issue and consider the value of that service in that context.</p> <p>The framework should also assess the market-based solutions that have been used and will continue to be used by Qld gas suppliers to supply southern states when required by the NEM. The gas and electricity markets have shown they can function as intended when gas and electricity industry participants determine the market-based solutions. Market signals are necessary to develop market-based solutions and can be distorted by regulatory overlay. Further markets should be left to determine how the risks associated with the solution/s are borne without any regulatory oversight, as regulatory oversight is likely to impede the development of a satisfactory market response and impact ongoing investment in the gas and electricity industries. It is important that the framework, if considering cost of supply, considers the full cost and value</p>
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	<p>to the market of that capacity. It is only through truly valuing that capacity that regulatory distortions will be avoided, and market-based solutions will be developed.</p> <p>Further, the framework does not currently consider the relevance of gas and other possible solutions in solving an issue in the NEM. As noted above, new developments in the southern states such as battery capacity, pump storage and an LNG import terminal expected during the period of the GSG can also contribute to solving issues in the NEM in peak demand period. In addition, new gas developments are coming online and are being supported by government policy. These factors should be considered in the framework to assess the value of the Gas Supply Guarantee.</p> <p>Also, the framework does not seem to consider other adjustments that can be made to support the NEM during these short demand periods and the impact these may have on how market solutions are determined. Demand side responses can be an important solution during these short-term peak demand periods. The framework does not include considerations of demand side response, for which appropriate market signals should not be distorted.</p> <p>Finally, the framework does not assess if and how the mechanism has been used since its inception to determine whether the guidelines have impacted or not the efficient operation of the gas market. As noted above, the GSG has not been triggered since its inception because the objective of the GSG is well understood by gas producers, gas suppliers and pipeline operators and power and gas markets have developed significantly and matured to deliver market-based responses. It is important to enable the market to find market-based solutions and the necessary gas capacity or other solution/s required to meet any shortfall in the NEM. Clear market signals must be provided to enable the market to respond appropriately.</p>
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QUESTION 4 – POTENTIAL SOLUTIONS

<p>1. Is the Gas Supply Guarantee mechanism fit for purpose? Why?</p>	<p>The GSG was fit for the limited purpose when it was introduced in 2017. The GSG has provided an appropriate mechanism to call market participants together to inform of critical stability issues and encourage discussions between those parties for resolution. However, the objectives of the</p>
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	<p>GSG particularly on ensuring the market is informed may be achieved by subsequent regulatory and government reforms and market-based solutions may ensure the GSG is not necessary in the future.</p> <p>Current regulatory consultations such as the Gas Fired Economic Recover Consultation is seeking industry responses on matters that will also assist in solving the issues the GSG was introduced to address – opening up new gas supply, creating a national infrastructure development plan and increasing the liquidity of the Wallumbilla trading hub.</p>
2. Are there alternative solutions?	No further reforms are necessary and the GSG should be allowed to expire at the end of its term on 31 March 2023. Until then, no changes are needed to the GSG to expand its scope and application.
a. Are there rules in place, or under development (in the NER and/or NGR), that provide a better solution?	No further rules are required to achieve the GSG objectives. The market is working to provide market-based solutions using the government and regulatory reforms introduced since the GSG was introduced in 2017.
b. Do other approaches or mechanisms (that are not rules-based) provide a better solution?	The current mechanisms and reforms are providing solutions to the issues the GSG was introduced to resolve – as noted above.
c. How would each potential solution address the issues?	Not applicable.
d. Who, in the NEM and the east coast gas market, would be impacted by each potential solution?	