

16 June 2021

Ms Anna Collyer  
Chair  
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Dear Ms Collyer

### **Supplementary information – Review of the Gas Supply Guarantee**

Over recent months the Australian Energy Market Operator (AEMO) has continued to discuss with the Australian Energy Market Commission (Commission) a range of issues arising out of its submission to the review of the Gas Supply Guarantee (GSG) Consultation Paper. At the most recent meeting on 4 June 2021, the Commission requested further information on the following matters: supporting measures to improve the GSG should it be retained; AEMO's view on suggested changes to the Guideline; and possible implications of the Queensland Callide event on the GSG.

#### GSG supporting measures

##### *Mandatory Extended Pre-Dispatch triggered by potential NEM need*

This regulatory option could provide AEMO and GPG operators with enhanced information on which to make decisions where a potential NEM need is identified. Under this option, AEMO could trigger a mandatory extended pre-dispatch process which would require generators and market participants to provide dispatch offers and bids in advance of the existing schedule. These offers and bids for the extended pre-dispatch period may be subject to a less onerous level of commitment and limitations on changes as currently required through the existing process (e.g. good faith bidding requirements).

One of the possible benefits of the measure is that it would provide information that is more certain than ST PASA which need only be based on a market participant's "current intentions and best estimates". It would also improve on the current voluntary extended pre-dispatch data provided by generators seven days out.

Importantly, AEMO notes that it is not recommending or advocating for mandatory extended pre-dispatch to support the GSG. Rather this GSG supporting option is presented for consideration by the AEMC, taking into account market impacts and the relevant costs and benefits.

##### *ST PASA Rule change proposal*

AEMO does not foresee any material impacts on the GSG arising out of its proposed ST PASA Rule change proposal, intended for lodgement in coming months. The Rule change proposal

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primarily seeks to enable AEMO and market participants the flexibility to respond to future ST PASA modelling changes faster and with less burden by shifting unnecessary prescription from the National Electricity Rules (Rules) to procedures, subject to a formal Rules consultation process.

The proposed rule does propose a requirement that AEMO to publish available capacity and PASA availability by individual unit, as opposed to an aggregation, to improve the transparency of information available to market participants. This will enable market participants to make operational and market decisions about the capacity they can provide at certain times and may assist with gas supply planning.

#### *Improve Gas Bulletin Board (GBB) data*

While not an additional measure, it should be noted that improvements to data quality will be realised through the *Measures to Improve Transparency in the Gas Market* reform, which is expected to commence mid-2022. BB pipeline operators will be required to provide, on a daily basis, the seven-day forecast of withdrawals from a BB pipeline. Importantly, where this is currently provided on a voluntary basis, this will be mandatory for each delivery point (including GPG delivery points). This may be based on the pipeline operator's forecast, or on forecast nominations from shippers (such as GPG operators) where they have provided forecast delivery point nominations.

The benefit of this reform is that it can be used to assess the east coast supply-demand balance based on the latest information. For example, through this mechanism a GPG operator should update nominations to pipeline operators and to the extent that the nominations result in a material change on the facility, then this must be shared with the GBB. It may also provide a mechanism for AEMO to request additional information (albeit on a voluntary basis) if the need for intra-day information is identified on the basis of a potential NEM need.

#### GSG Guideline changes

The AEMC identified three potential amendments to the GSG Guideline and sought AEMO feedback on each of these. Brief commentary is as follows:

##### *Application to broader NEM system security requirements*

AEMO considers it appropriate that the GSG be used to address broader NEM power system security requirements such as system strength and voltage requirements, as well as reliability needs. Under the GSG Guideline broader NEM requirements could be covered by the trigger event under 3(b)(i) "prevailing market conditions" or by 3(b)(ii) where a GSG process is triggered by GPG advice that it is not available for dispatch for system security purposes.

It is noted that the GSG would be less likely to be used for power system security requirements than for supply reliability. This is because when required for system strength, GPGs can be run at minimum or lower loading levels to provide the required system security services and therefore the total gas supply required is likely to be less than that required for a reliability event.

### *References to "NEM peak demand"*

Gas Supply Shortfall is defined in the GSG Guideline as "a shortfall in gas supply available to meet the fuel requirements for Gas Generators to operate at the capacity required during a *peak NEM demand period*". The AEMC noted that a peak NEM demand period was an unlikely driver for a gas supply shortfall event, and that a definition based on some other peak demand, for example a regional peak might be more appropriate.

AEMO agrees that a definition based on peak NEM demand period should not be used to define a gas supply shortfall. Further, AEMO also considers that this should not be linked to peak demand and would be more appropriately based on broader NEM objectives. For example, an amendment to the gas supply shortfall definition to mean "a shortfall in gas supply available to meet the fuel requirements for Gas Generators to operate at the capacity required to operate the NEM" would achieve this. Alternatively, the definition could reference the trigger events set out at 3(b) of the GSG Guideline.

### *References to east coast gas coordination role*

AEMO facilitates the South East Australia Gas Maintenance Co-ordination Workshop (SEAGMCW) for Producers, Storage Providers and Transmission Pipeline Operators that supply gas to South East Australia. The SEAGMCW is primarily run to meet AEMO's obligation to coordinate all maintenance planned by DWGM facility operators under National Gas Rules (NGR) clause 326. Participation in the workshop has been expanded on a voluntary-basis to facility operators that are not obliged under the NGR but that see the value in coordinating maintenance activities with DWGM facility operators.

AEMO notes that there are opportunities to enhance publicly available information on the GSG and its interactions with other measures such as the SEAGMCW. However, as the GSG Guideline is a procedural document AEMO does not see this as the optimal place to provide contextual information. Instead, AEMO suggests that enhancements could be made to the AEMO website to enable participants to better understand the linkages between various formal and informal obligations and AEMO roles.

### Ongoing impact of Queensland event

Early indicators are that the Callide C loss on 25 May 2021 has increased Queensland GPG generation, with average demand for gas generation having at least doubled since the incident. However, it is forecast that while Callide C unit 4 will not be operational until June 2022, Callide C unit 3 and Callide B units may be operating by early July, meaning that this additional gas demand should largely abate. Further, Callide C unit 4 might, subject to availability of coal, be compensated by Gladstone, Stanwell, Tarong and interconnector flows, leaving little to no additional gas demand.

Assuming there is some ongoing additional gas demand, AEMO's preliminary view is that the Callide outage should not impact the GSG or gas supply more broadly. This is because, of gas consumption in east coast gas markets, Queensland GPG consumption comprises a small portion, compared to LNG production. As east coast LNG consumption is Queensland-based and it is expected that LNG exporters could redirect gas to Queensland GPGs, where gas is

available above contract levels. Additionally, LNG exporters are scheduled to take outages over the coming Australian winter months, and therefore a higher domestic supply is likely to be available during this time which could be made available to Queensland GPGs.

We welcome the opportunity to continue to discuss the matters raised in this letter. Should you have any questions, please contact Andrea Marinelli, Regulation Specialist at [andrea.marinelli@aemo.com](mailto:andrea.marinelli@aemo.com).

Yours sincerely



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