

17 April 2025

Our Reference:

APLNG - COR - 1052221

Alfredo Careaga Project Leader (GRC0076) Australian Energy Market Commission Level 15, 60 Castlereagh Street Sydney NSW 2000

By electronic lodgement: www.aemc.gov.au/contact-us/lodge-submission

#### Dear Mr Careaga

Australia Pacific LNG Pty Limited (APLNG) welcomes the opportunity to contribute to the Australian Energy Market Commission's (AEMC) consultation process on the '*ECGS reliability standard and associated settings*' rule change request.

APLNG is an incorporated company and one of the largest producers of natural gas in eastern Australia, delivering a reliable energy source to customers in Australia and Asia. We are the largest net contributor of gas supply to Australia's domestic east coast gas market, providing over 2,100 PJ of gas into the domestic market since the project was sanctioned.

We are not convinced that making further amendments to the east coast gas system (ECGS) reliability and supply adequacy framework will incentivise the domestic investment needed to address the fundamental challenges facing the ECGS, being:

- unlocking additional supply (particularly in the southern states)
- addressing infrastructure constraints.

New gas must be developed and made available where it is needed to minimise the risk of supply shortages. Removing regulatory barriers, not introducing more regulation, is key to achieving this.

If the AEMC considers intervention is necessary to address the concerns raised by the proponent, a comprehensive cost-benefit analysis of feasible options is essential to ensure the most robust and cost-effective solution is implemented. For instance, requiring the Australian Energy Market Operator (AEMO) to directly consider the value gas customers place on reliability (VGCR) when exercising its direction and trading functions could be more cost-effective than establishing the reliability standard and reliability forecast. Additionally, peak demand could be addressed through other solutions such as a capacity market and the proposed administered demand response mechanism.

We also encourage the AEMC to consider whether the following measures are really necessary, given the costs are likely to outweigh the benefits:

 developing an interim reliability standard and interim VGCR estimates for go-live in 2026 when the 2025 Gas Statement of Opportunities shows that supply shortfalls are now expected to occur from 2028

- establishing the Gas Forecasting Best Practice Guidelines to guide AEMO in its gas forecasting functions when AEMO has already been providing gas planning and forecasting information for many years
- conducting an ex-post review of the accuracy of AEMO's forecasts even though forecasts are estimates of future outcomes based on available data at the time.

The attached stakeholder feedback template outlines APLNG's preferred positions with respect to the proponent's proposed measures and provides more detail on alternative design options and solutions.

Thank you for considering our submission. We look forward to engaging further with the AEMC on these important matters. Should you have any queries relating to this submission, please contact Kieran Olsen, Compliance Manager, on 07 3021 3347 or via email at <u>compliance@aplng.com.au</u>.

Yours sincerely

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*Manda Goodwin* General Manager Commercial Australia Pacific LNG Pty Limited



# **ECGS Reliability standard and associated settings** 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 in considering 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:	Australia Pacific LNG Pty Limited	
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DATE	17 April 2025	

#### **PROJECT DETAILS**

NAME OF RULE CHANGE:	ECGS Reliability standard and associated settings		
PROJECT CODE:	GRC0076		
PROPONENT:	Energy Senior Officials/Victorian Minister for Energy and Resources		
SUBMISSION DUE DATE:	E 17 April 2025		

1. [       t	Do you agree with the proponents' reasons for ntroducing the tools proposed in his rule change request?	While Australia Pacific LNG Pty Limited (APLNG) acknowledges the proponent's motivations for proposing the new tools, we are not convinced that substantial amendments are required to the east coast gas system (ECGS) reliability and supply adequacy framework at this stage. This is because the key issues facing the ECGS are:
1.1.	Why or why not?	
1.2.	Are the proponent's concerns sufficiently	<ol> <li>unlocking additional supply (particularly in the southern states)</li> </ol>
	material to support	2. addressing gas infrastructure constraints.
	solutions?	New gas must be developed and made available where it is needed, close to the centres of demand, to minimise the risk of supply interruptions. Removing barriers, primarily regulatory, is key to achieving this.

APLNG therefore believes it is vital for the Australian
Energy Market Commission (AEMC) to assess the
relevancy and urgency of the proposed reforms. If the
AEMC decides that the issues identified by the proponents
require regulatory intervention, the AEMC should conduct
a detailed cost-benefit analysis of feasible options to
ensure the most fit-for-purpose and cost-effective solution
is implemented.

2.	Will the proposed reliability standard effectively address the issues raised by the proponents?	APLNG agrees that the ECGS should not be trying to achieve 100 per cent reliability all the time and that a balance needs to be struck between the costs of providing reliability and the costs associated with supply disruptions. However, introducing a reliability standard (together with the reliability forecast) may not be the most appropriate solution to addressing the issues raised by the proponents. Developing and maintaining this framework will be expensive, and, even with the proposed governance arrangements in place, there remains a risk that the reliability standard will be set at the wrong level. This could lead to inefficient investment decisions or premature interventionist actions being undertaken by the Australian Energy Market Operator (AEMO). Instead, the AEMC could amend rule 699 of the National Gas Rules (NGR), which sets out the matters AEMO must have regard to when determining whether to exercise its direction or trading functions. Specifically, a new matter could be added for AEMO to consider the latest value gas customers place on reliability (VGCR) estimates before exercising its functions. This will ensure customers' willingness to pay is factored into AEMO's decision-making, whether that is eliciting market-led responses at gas supply adequacy and reliability (GSAR) conferences, issuing directions or trading. APLNG believes this change, combined with a more objective threat signalling mechanism (see question 5), could achieve similar outcomes to a reliability standard, but at a lower cost.
2.1	L. Do you consider the proposed dual reliability standard will be effective in promoting more efficient, timely and informed decisions that have regard to the value customers place on reliability?	Refer to our responses to questions 2 and 2.2.
2.2	2. Do you think the proposed form of the dual reliability standard is optimal?	If a reliability standard is introduced, APLNG is generally supportive of the proposal to adopt a probabilistic standard such as an annual measure of unserved gas metric. However, we believe further assessment is required before introducing a peak-day deliverability metric. Addressing rare and/or short-lived significant peak day events through the reliability standard may be costly and

		result in higher customer bills. Other mechanisms that may be better suited to addressing peak day demand issues include:
		<ul> <li>a capacity market (i.e. an ability to charge for reserve capacity)</li> </ul>
		daily demand smoothing
		<ul> <li>storage infrastructure (e.g. requirements to store minimum volumes of gas in underground storage facilities or for storage capacity holders to use or release unused booked capacities)</li> </ul>
		<ul> <li>an administered demand response mechanism, which will be considered by the AEMC later this year</li> </ul>
		<ul> <li>public appeals to reduce demand during peak day events (e.g. via radio and television announcements and direct communications with large gas users).</li> </ul>
		The AEMC should conduct a detailed cost-benefit analysis of feasible options (or combinations thereof), with a focus on ensuring the selected option does not unduly distort competition or the proper functioning of the east coast gas market or lead to excessive regulatory costs.
2.3.	Do you consider the proposed governance arrangements are adequate?	If a reliability standard is introduced, APLNG agrees that periodic reviews by the AEMC would be required to ensure it remains fit-for-purpose and is delivering optimal outcomes in accordance with the national gas objective (NGO). The NGR need to contain a certain level of prescription to guide the AEMC in performing its duties. Stakeholders should also be given the opportunity to provide feedback
		on the AEMC's assessment of these prescribed matters (e.g. the weighting each matter should be given and whether the matter is relevant) via consultation on the proposed Reliability Standard and Settings Report.
2.4.	Do you consider an interim reliability standard (informed by an AEMC- calculated interim VGCR) would be an effective tool until a permanent VGCR and reliability standard are calculated by AER and AEMC respectively?	No, APLNG does not support the introduction of an interim standard informed by interim VGCR estimates as it increases the risk of regulatory uncertainty and inappropriate investment signals being sent. This may result in investment decisions that fail to promote the efficient investment in covered gas services, which is counter to the NGO. Adopting an interim reliability standard would also increase regulatory costs (e.g. duplicate one-off implementation costs and stakeholder engagement costs) and may lead to engagement fatigue, potentially resulting in inadequate feedback being received on the design of the permanent measures.
		We also do not believe there is a pressing need to have an interim reliability standard in place for 2026. The 2025 Gas Statement of Opportunities (GSOO) shows that peak-day shortfalls and seasonal supply gaps in the southern states are forecast to arise from 2028, with annual supply gaps from 2029. We encourage the AEMC to examine the latest supply-demand forecasts when assessing the urgency of these reforms.

2.5.	Do you think there are reasons for an alternative reliability standard to apply to any particular jurisdiction (e.g. Northern territory) or type of gas user?	APLNG considers that a southern and northern jurisdiction split would more appropriately take into account the physical limitations of the ECGS. This differentiation could provide more granular information on the supply-demand balance in the different jurisdictions and facilitate effective and efficient market-led responses in constrained areas and/or better targeted measures to be enacted by government.
QUES	TION 3	
3. Will effe rais	the proposed VGCR actively address the issues ed by the proponents?	APLNG sees value in investigating the development of VGCR estimates for the ECGS. In addition to determining the appropriate level of the reliability standard (if introduced) or informing AEMO's decision-making (APLNG's proposal, outlined above), these estimates could also be used by regulated gas pipeline service providers in developing their network expenditure proposals. If the VGCR is introduced, APLNG agrees that the Australian Energy Regulator (AER) would be best placed to develop the methodology and estimates. This is a highly technical and specialist area, so there would be value in leveraging the AER's experience in the electricity space and its existing processes. The proposed four-year review period appears to balance
		the costs of undertaking the review against the need to ensure the VGCR estimates are current. Between reviews, we agree with the proponent's proposal for the published values to be annually adjusted.
3.1.	Do you consider a VGCR can be estimated in order to inform an ECGS-wide reliability standard that reflects the value different consumers place on reliable gas supply?	Yes, we believe it is possible to estimate a VGCR to inform an ECGS-wide reliability standard that reflects the value different consumers place on reliable gas supply. However, it must be recognised that different consumers will ultimately value reliable gas supply differently. Further, developing a robust VGCR methodology will be a complex task because the VGCR is a measure that is not readily observed. The quality of parameters, assumptions, data, and modelling will therefore be crucial to ensuring the VGCR estimates are as robust as possible.
3.2.	What challenges and opportunities do you consider the AER will face when calculating a VGCR?	<ul> <li>The AER may need to overcome the following challenges when calculating the VGCR estimates:</li> <li>unreliable or non-timely data, which could lead to flawed analysis and conclusions</li> <li>insufficient sample size and/or overrepresentation by certain types of gas users, which could skew the results</li> <li>survey participants' bias or errors in completing the survey, which could skew the results</li> <li>low response rates, which could lead to selection bias and less reliable findings</li> <li>inappropriate methodology and techniques, which could result in less reliable data or flawed conclusions</li> </ul>

		<ul> <li>poor data collection methods (e.g. accessibility issues or unclear survey questions), which could lead to less reliable data</li> <li>discontinued data sources between reviews.</li> </ul> Another issue the AER may experience is receiving adequate feedback from stakeholders to inform the development of the VGCR methodology and estimates. The rule change request proposes that the AER would carry out its task of estimating and periodically reviewing the VGCR using the standard consultative procedure in rule 8 of the NGR. However, rule 8(2)(a)(ii) of the NGR sets the maximum consultation period as 15 business days (i.e. <i>`inviting submissions on the proposal within 15 business days of the date of the [AER's] notice').</i> This is insufficient time for stakeholders to review and provide comprehensive feedback, given the complexity of the matters that will be consulted on.
3.3.	What factors should the AER take into account?	<ul> <li>The key factors the AER should consider when designing the VGCR methodology and undertaking its periodic reviews are: <ul> <li>costs. For example, the AER should limit the use of external consultants to the extent practical, use existing datasets and consider the regulatory burden on survey participants</li> <li>the unique characteristics of the ECGS (e.g. the different types of customer groups and their consumption levels and profiles, and the nature of supply interruptions such as the timing, duration and frequency)</li> <li>replicability between reviews</li> <li>electrification plans and alternative and/or back up supply.</li> </ul> </li> </ul>

4.	Will the proposed approach to reviewing the market settings effectively address the issues raised by the proponents?	No feedback.
4.1.	Do you consider that the current market settings (STTM and DWGM) need to be informed by a reliability standard?	No feedback.
4.2.	Is it essential for the market settings to use a reliability standard as an input or can the settings be updated directly to reflect a VGCR?	No feedback.
4.3.	Do you consider the proposed governance arrangements are adequate?	No feedback.

5. Will tool: issu	the proposed communication s effectively address the es raised by the proponents?	APLNG agrees there is value in exploring the introduction of a more objective threat signalling mechanism, to help the market, government and other stakeholders gain a better understanding of the significance of the risk or threat and facilitate market-led responses. Both the declaration of crisis approach used by the European Union (EU) and the electricity Lack of Reserve (LOR) framework have merit and are worth exploring in more detail. The redesign should focus on developing clear definitions and operational guidance; otherwise, it is unlikely to deliver materially different outcomes to the current arrangements. For example, if the revised mechanism is based on the EU framework, key terms like 'significant deterioration of gas supply situation', 'significant disruption of gas supply' and 'exceptionally high gas demand' would need to be defined. AEMO would also need to develop criteria for each threat level and a priority order for the recipients of available gas during a supply disruption. If the threat signalling mechanism is changed to a tiered approach, APLNG proposes the AEMC amend rule 693 of the NGR and the <i>National Gas (South Australia)</i> <i>Regulations</i> , such that the civil penalty associated with attendance at the GSAR conferences is linked to the highest levels only (e.g. the 'Alert' and 'Emergency' crisis levels under the EU framework). It is not proportionate for market participants to pay a civil penalty when they fail to attend a conference focused on raising industry awareness (as opposed to a conference focused on eliciting market-led responses).
5.1.	Do you consider the proposed threat signalling mechanism and GSAR conferences would be effective tools for AEMO to better communicate reliability and supply adequacy threats so that market participants can adequately respond?	<ul> <li>The proposed changes have the potential to lead to better communication of reliability and supply adequacy risks or threats. However, this is contingent upon: <ul> <li>clearly defining each threat level and the criteria for each threat level (see question 5)</li> <li>providing guidance on the type of market-led responses or interventions that may be required at each threat level (e.g. public appeals, utilising linepack, maximising supply, activating interruptible contract provisions, load shedding and curtailment).</li> </ul> </li> <li>We also note there are limitations in using the Part 27 register contacts to communicate risks or threats. Communications via AEMO's market newsletter, in addition to the Part 27 register contacts, would broaden the audience.</li> </ul>
5.2.	Do you consider appropriate for the threat level criteria to be set out in AEMO's ECGS procedures?	Yes, provided the NGR prescribe the threat levels, define key terms and contain sufficient guidance to AEMO on how it should determine the criteria for each threat level.
5.3.	Could a LOR framework for the ECGS allow AEMO to more objectively issue escalating threat signals to market participants without	Yes, a well-defined, objective threat signalling mechanism could provide sufficient threat signals to market participants without the need for a reliability standard. Refer to our response to question 2 for further information.

the need for a reliability standard?

0.	Will the proposed reliability forecast and or the system resilience risk assessment effectively address the issues raised by the proponents?	<ul> <li>As noted in our response to question 2, APLNG believes the AEMC should explore alternative solutions to the reliability standard and, by extension, the reliability forecast. If a reliability forecast is introduced, we consider that the following aspects of the proposal are unnecessary: <ul> <li>the AER developing and consulting on the Gas Forecasting Best Practice Guidelines to guide AEMO's gas forecasting practices and processes. We trust AEMO has sufficient forecasting expertise, given it has been providing planning and forecasting information for Australia's gas markets for many years. Introducing this guideline will increase regulatory costs and will not address the key concern raised by the proponent about the difficulty of developing demand forecasts (see page 44 of the rule change request). If required, APLNG proposes that the AER instead critically reviews AEMO's guideline and provides feedback on areas of improvement (upon development and if there are material changes)</li> <li>AEMO assessing the accuracy of its forecasts as part of an annual ex-post review. Forecasts are undertaken at a point in time and, by their nature, will not be accurate. Factors like weather, market and economic conditions, the regulatory</li> </ul> </li> </ul>
		framework, consumer behaviour and electrification can greatly affect the accuracy of forecasts. APLNG instead supports AEMO adopting a culture of continuous improvement with respect to its methodology and embedding any lessons learned into the next reliability forecast.
		APLNG also believes there is limited value in AEMO developing a system resilience risk assessment. The proponents suggested this assessment could help industry make more informed and efficient planning and investment decisions and signal the need to undertake regular maintenance of critical infrastructure. However:
		<ul> <li>Industry already has access to a wide range of information to make planning and investment decisions (e.g. Gas Bulletin Board reports, the GSOO, third-party pricing sources, and company information).</li> </ul>
		<ul> <li>Decisions about maintenance are guided by statutory requirements and/or industry engineering standards.</li> </ul>
		Owners and operators of critical gas assets must comply with the <i>Security of Critical Infrastructure</i> <i>Act 2018</i> (Cth), making risk management, preparedness, prevention and resilience business

		as usual for owners and operators of these assets.
		If the system resilience risk assessment is introduced, AEMO should use existing data sources and publicly available information. APLNG does not support introducing new information disclosure requirements.
		Finally, page 43 of the proponent's rule change request asks the AEMC to consider greater alignment between the approaches used by AEMO and the Australian Competition and Consumer Commission (ACCC) to assess reliability and supply adequacy or require AEMO to document the differences. APLNG supports removing duplication between the GSOO and the Gas Inquiry to reduce the regulatory burden of responding to both information disclosure requests. If this is not possible, AEMO and the ACCC should seek to align their assessment approaches, to the extent practical, to avoid confusion and inconsistent signals. This could be achieved by requiring AEMO to consult with the ACCC when it develops the proposed Gas Reliability Standard and Forecasting Guideline.
6.1.	Do you consider the proposed reliability forecast and/or the system resilience risk assessment will be effective in facilitating more informed and efficient planning and investment decisions across the ECGS?	Refer to our response to question 6.
6.2.	Do you consider a reliability standard would materially improve the GSOO and the VGPR forecasts and risk assessments? Could other proposed tools (e.g. VGCR) inform those assessments more directly?	APLNG does not believe the introduction of the reliability standard would materially improve the GSOO and Victoria Gas Planning Report (VGPR) forecasts, as the reliability standard will not affect the quality and accuracy of inputs and assumptions being used by AEMO in its forecasts. This information is generally based on market participants' best estimates and actual outcomes may be different. From a supply perspective, these variances may arise due to factors like regulatory or policy changes, market conditions, reservoir performance, unplanned outages, changes to the timing of planned outages and contract flexibility. For demand, weather conditions, economic conditions/cost pressures, the availability and price of alternative energy sources, and power outages may lead to differences.

7.	What are your views on the expected benefits and costs of the proposed solution?	The rule change request contains a reasonable qualitative assessment of the expected benefits and costs of adopting the proposed solution. However, it does not quantify the expected benefits and costs. We therefore request the AEMC undertake, and present to stakeholders, a detailed cost-benefit analysis of feasible solutions to the problems identified by the proponent. To aid with this task, the AEMC could seek cost estimates from the regulatory
		bodies expected to perform the proposed functions.

7.1.	Do you agree with the expected benefits identified in the rule change request? Are there other benefits that may arise to ECGS participants and gas users or are relevant to some specific proposed tools included in this rule change request?	No feedback.
7.2.	Do you agree with the expected costs identified in the rule change request? Are there other costs that may arise to ECGS participants and gas users or are relevant to some specific proposed tools included in this rule change request?	<ul> <li>The assessment of expected costs excludes the following:</li> <li>the costs incurred by gas users in completing surveys to facilitate the AER's calculation of VGCR estimates</li> <li>the costs to industry of revising compliance procedures and training programs</li> <li>the costs to industry of attending additional AEMO GSAR conferences when the reliability standard is breached or due to the adoption of a tiered threat level approach</li> <li>the potential costs associated with preparing additional or more frequent GSOO data.</li> </ul>
7.3.	What do you consider will be the costs and benefits of the proposed solution in both the short/medium-term and longer-term?	No feedback.
7.4.	Are there different design approaches to any of the proposed reliability tools that could assist in improving benefits or reducing costs?	<ul> <li>Yes. Refer to our earlier responses on alternative solutions or design options for the: <ul> <li>reliability standard (question 2)</li> <li>reliability standard peak demand day deliverability metric (question 2.2)</li> <li>reliability forecast and system resilience risk assessment (question 6).</li> </ul> </li> </ul>

### **QUESTION 8**

8. Are there alternative solutions?	Yes. Refer to our responses to questions 2, 2.2 and 6.
8.1. Do you consider variations or alternatives to the proposed solutions could solve the issues being represented by the proponents?	

9. Assess	sment Framework	
9.1. [ [	Do you agree with the proposed key assessment criteria?	APLNG generally agrees with the key assessment criteria proposed by the AEMC. It is especially critical for the AEMC to consider the likely cost impact of the proposed solutions against other viable alternatives and existing arrangements, and who will bear the costs of the final

	solutions. In undertaking this assessment, the AEMC should be cognisant of the cumulative burden being placed on the gas industry from recent policy reforms.
9.2. Are there additional criteria that the Commission should consider, or criteria included here that are not relevant?	<ul> <li>The AEMC should also consider:</li> <li>relevancy—is there a genuine problem that needs to be addressed?</li> <li>urgency—do the proposed measures need to be put in place now?</li> <li>coherency—will the proposed measures contribute to a more cohesive reliability and supply adequacy framework?</li> </ul>

## **OTHER COMMENTS**

10. Information on additional issues	APLNG does not have any additional feedback.
	AFEING does not have any additional reedback.