17 April 2025

Australian Energy Market Commission (AEMC)

Via AEMC website: www.aemc.gov.au

National Gas Amendment (ECGS reliability standard and associated settings) Rule

Alinta Energy welcomes the opportunity to provide feedback on the proposed ECGS reliability standard and associated settings consultation paper.

Alinta Energy is generally supportive of the setting of a reliability standard, considering that this is preferable to participants not being able to foresee the conditions under which AEMO would deploy its powers of intervention. Additionally, it presents an opportunity to align the price caps between the DWGM and STTM, which otherwise risks distortions and inefficiencies in how gas is traded across interconnected markets.

However, we note that the reliability standard and related PASA and intervention regime are very limited in the extent to which they can address under lying gas supply and emerging transport constraint issues. They are also likely to be less effective compared to the frameworks they seek to emulate in the NEM, given that gas customers, producers and pipeline operators have less flexibility in the face of a shortfall or transmission constraint relative to their equivalents in the electricity market. In this context we perceive risks that these tools would be over-exercised and potentially lead to excessively high price caps, frequent interventions and onerous PASA or reporting requirements on participants without solving the underly supply issues in the medium to long term.

It is difficult to assess these implications noting that the reliability standard rule change is presented in isolation of these related rule changes, and it is not clear as to what triggers it will ultimately set for AEMO's interventions, based on the standard (and under what timeframes).

In light of these concerns, we provide the following recommendations which are further detailed below:

- Consider aligning both price caps at $800 – the current cap in the DWGM as an interim measure, noting this cap has rarely been reached (indicating a substantial change may not be required).

- As estimates become available, consider whether price caps based on VGCR will deliver benefits, relative to the risks they may create, including excessive exposure for buyers and consequential changes (and potentially circular) increases to the NEM price cap.

- Minimise further information requirements and potential interventions. Each major gas supply event in the past decade has precipitated further compliance obligations on participants and interventions that do not address the underlying issues that caused the events.[1] Additional reforms in the same vein would compound this issue and its strain on the market.

- Minimise additional layers of governance arrangements and have the Reliability Panel setting price caps in the NEM and gas markets. A common body setting gas and electricity market caps will help manage potential flow on consequences in either market.

- While not in AEMC's scope, we note the need to increase gas supply to improve reliability.

Considerations for setting the reliability standard

Should a reliability standard be high (as in the NEM – 0.002 USE), there should be careful consideration given to the implications this has to the market.

If the reliability standard is triggered and the market is unable to meet supply, there are limited tools at AEMO's disposal to address shortfalls.

It would not be in the markets best interest for a high VGCR to lead AEMO to procuring large reserves and frequently intervening in the market at a customers' expense. Alinta Energy notes that while the Reliability and Emergency Reserve Trader (RERT) is a valuable intervention tool for AEMO in the NEM there is limited scope at this stage for similar arrangements in the East Coast gas markets.

Considerations for setting price caps

Alinta Energy recommends careful consideration of any updates to price settings. A change in the market price cap would not create a signal in the market to increase supply, when the underlying political, social and commercial issue of increasing supply remains. The binary solution of this to curtail demand poses additional challenges that would not be addressed by this rule change.

From a market participant perspective, a higher market cap would increase exposure and potentially serve to deter participation in the market and increase end costs to consumers, particularly given the increase in wholesale price exposed consumers.

Given these risks, we recommend that AEMC consider aligning both price caps at $800 – the current cap in the DWGM – as an interim measure, noting this cap has rarely been reached (indicating a substantial change may not be required).

As estimates become available, we recommend that the AEMC consider whether price caps based on VGCR will deliver benefits, relative to the risks they may create, including excessive exposure for buyers and consequential changes (and potentially circular) increases to the NEM price cap.

Governance arrangements

The 2022 NEM suspension event which followed gas supply issues highlighted the need for a coordinated approach to setting price limits in the NEM and gas markets. Ideally this would involve one body setting all limits.

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[1] For example, the Gas Market Transparency Reforms, the 2023 pipeline reforms, the ECGS stage one reforms, the 2022 gas price cap and the mandatory code of conduct.

We recommend a change of law to expand the scope of the Reliability Panel (or create a gas Reliability Panel that is coordinated with the NEM panel) to provide advice to the AEMC in respect of AEMO's gas markets, as well as the NEM.

We also recommend consolidation of existing governance arrangements. The east coast gas industry is now subject to both the ADGSM and AEMO's east coast gas system emergency powers. There are clearly overlapping intentions in the design of these two policy instruments and, noting that each of these instruments is managed by different parties, there is a risk that simultaneous uncoordinated courses of action are taken in response to a threat to east coast gas system reliability: leading to inefficiencies and potentially reliability risks of their own.

The need to secure gas supply

The need to ensure adequate gas supply in response to forecast gas scarcity on the East Coast will not be resolved through changes in associated market settings.

Ultimately, the current regulatory restrictions on gas exploration and production will serve to further limit the avenues available to market participants to address demand-supply issues. The AEMC has noted the reforms and related rule changes 'do not aim to incentivise additional gas (commodity) supply through increased exploration and production activity'.

Without a clear pathway to procuring additional gas supply in the East Coast, market participants have a limited ability to address the reliability standard in the face of constrained supply. The ability of AEMO to use its proposed 'supplier of last resort' powers and intervene in such a situation would not serve to address the underlying supply issue and would have potential negative impacts to customers in the form of increased price risks.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please get in touch with Oscar Carlberg at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely,

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