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Anna Collyer Chair Australian Energy Market Commission

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Dear Ms Collyer

ECGS reliability standard and associated settings - Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Consultation Paper on the *East Coast Gas System (ECGS) Reliability standard and associated settings* rule change.

Origin recognises the intent of the proposed gas reliability standard is to assist gas market participants and the Australian Energy Market Operator (AEMO) to make better informed decisions about the tradeoffs between reliability costs and supply interruption costs. A well-designed gas reliability standard could be a useful addition to the gas policy framework and should be considered alongside existing regulatory instruments which are set to be reviewed this year. A formal standard could provide a clear and transparent trigger for various gas market interventions. However, we acknowledge it will be challenging to design a meaningful reliability standard that accounts for the unique structure / dynamics of the ECGS and reflects an appropriate value of gas customer reliability (VGCR). We caution that the introduction of a standard that is ill-suited to the ECGS could create uncertainty and confusion. Noting this, we recommend the AEMC performs further analysis to facilitate a more informed assessment of the proposed dual reliability standard, including the different types of risks that the standard would capture / quantify.

Below we discuss the potential utility of a gas reliability standard and share our initial views on the proposed features of the standard and the associated settings.

1. Potential utility of a gas reliability standard

If well designed a gas reliability standard could improve the functioning of the gas market by providing a more predictable and transparent approach to the use of AEMO and other market interventions. These include, but are not limited to:

- <u>AEMO's trading function / AEMO directions:</u> At present, it is not clear under what circumstances AEMO will trade in gas or issue directions to market participants because there is no objective system shortfall threshold that must first be exceeded. The lack of a threshold also means the magnitude / extent / duration of these interventions is uncertain. This makes it more difficult for participants to confidently trade and participate in the broader gas market and can contribute to distortions (e.g. a participant may have less incentive to take a storage position if AEMO is likely to direct gas at that facility).
- <u>AEMO's procurer of last resort role for Dandenong LNG:</u> AEMO has previously identified that in the absence of a standard, it is unable to determine whether contracting only a portion of uncontracted capacity at the facility (rather than all of it) would sufficiently address identified

risks.¹ Requiring AEMO to procure all uncontracted capacity at the facility can lead to unnecessary costs for gas users.

- <u>Gas Supply Adequacy and Reliability (GSAR) conferences:</u> In recent years, market conferences have been convened successfully and facilitated the delivery of additional supply. We note that linking the convening of GSAR conferences to forecast breaches of the standard might help participants to better anticipate when conferences will be held.
- <u>The Australian Domestic Gas Security Mechanism (ADGSM)</u>: While the ADGSM is a separate mechanism to AEMO's ECGS powers, it shares a similar purpose in that it seeks to address supply shortfalls. Currently, the ACCC's quarterly supply / demand forecasts are a key determinant of whether the ADGSM is triggered – the AEMC should consider and articulate how a new reliability standard will interact with this process.

2. Design considerations for a gas reliability standard

Noting the proposal for a gas reliability standard is based on existing arrangements in the NEM, it is important to first recognise that the NEM and ECGS are fundamentally different markets with contrasting characteristics. While the NEM is an open access, gross pool market where all electricity and consumption is transacted at the spot price; the ECGS is largely underpinned by bilateral supply and transportation contracts between parties.² Individual generating units in the NEM represent a small proportion of overall installed capacity, whereas the ECGS is reliant on only a few supply sources. These differences mean that substantial changes will need to be made to the NEM reliability standard to ensure it is suitable for the ECGS.

It is clear the development of a new gas reliability standard will be a challenging and complex task which will need to be supported by more detailed analysis. Below we provide initial comments on specific elements of the reliability standard and highlight areas for further consideration.

- Form of the standard: Our preliminary view is that a probabilistic approach that considers a broad range of potential scenarios / operating conditions and likelihood of some level of reliability not being met will likely be most appropriate.³ At a high level the proposed dual standard which seeks to identify annual and peak day risks aligns with this approach, however to enable more informed stakeholder feedback we recommend that the AEMC conducts a more detailed assessment of how the proposed standard would treat / quantify different types of risks. This should include a back-casting exercise to assess how different historical supply interruptions would be identified under the proposed reliability metric. This could also serve to more broadly highlight the utility of a gas reliability standard.
- <u>Level of the standard</u>: A VGCR measure should be used to inform the level of any gas reliability standard. (This is discussed in more detail in the subsequent section).
- <u>Governance arrangements</u>: We support the proposed governance arrangements and division of responsibilities among market bodies, but query whether an expanded Reliability Panel (with

¹ "Without a regulatory mandated reliability standard... AEMO has no basis on which to model or forecast required capacity against". AEMO, *AEMO's responses to the AEMC's questions regarding the DWGM interim LNG storage measures rule change*, p. 4.

² Around 90% of gas in the east coast market is sold under contract. Energy Quest, 2024, Spot and contract markets and prices – Factsheet, p.1

³ A deterministic 'N-1' standard would not be economically efficient / practical given the ECGS is reliant on a small number of critical supply sources and pipelines. For this reason, a probabilistic approach seems the most suitable.

additional gas market members) would be better placed than the AEMC to conduct the periodic reviews of the standard and facilitated market settings. In this way the Reliability Panel would have oversight of both gas and electricity market parameters which would enable a consolidated market settings review to be undertaken. This would likely provide efficiency benefits and potentially allow for the interaction of settings across markets to be better considered.

 Interim arrangements: The Consultation Paper acknowledges that it may take time for robust VGCR figures to be developed and as such outlines potential transitional arrangements which would involve the AEMC commissioning a high-level estimate of the VGCR. We recommend caution in determining an interim reliability standard based on high level VGCR estimates and the AEMC should conduct a 'sense check' of any VCGR values / proxies to ensure they are reasonable. In this regard, the AEMC may be able to leverage analysis / assumptions used in AEMO's gas market parameter reviews.

3. Initial views on other associated settings

The Consultation Paper also identifies how the new standard could interact with several other settings. We provide some initial views on these related settings below.

- <u>VGCR</u>: A VGCR measure should be used to inform the level of any gas reliability standard. It
 will be important that AER consults on the VGCR methodology as it may be challenging to
 develop meaningful figures. Given the differences in demographics of gas users across regions
 (e.g. relatively high residential use of gas in Victoria relative to other states) it seems appropriate
 for VGCRs to be estimated for individual regions.
- <u>Link to price settings:</u> The settings should be set with reference to the reliability standard to ensure price caps / thresholds are at an appropriate level to drive market-led outcomes and reduce the need for intervention.
- <u>Objective threat signalling mechanism</u>: The current rules and AEMO procedures do not sufficiently define what constitutes a system reliability risk / threat. This means current signalling mechanisms may not provide participants with a clear and objective understanding of the potential severity of risks / threats. Therefore, there would appear to be merit in the development of an improved threat signalling mechanism that is linked to the reliability standard and communicates potential breaches.⁴
- <u>Gas Statement of Opportunities (GSOO) and Victorian Gas Planning Report (VGPR)</u>: As per the NEM framework, it would be sensible for any reliability assessments to be incorporated in AEMO's annual supply / demand reporting. We think it would be beneficial for AEMC to articulate how the proposed additional reliability forecasts would interact with the existing GSOO and VGPR risk assessments.

⁴ As an alternative, the Consultation Paper also outlines a signalling approach based on the LOR framework used in the NEM. As noted previously, the gas system's reliance on a few key pieces of infrastructure means such an approach (based on an 'N –X' contingency protocol) would not be practical, as it would likely show the market is in a constant reliability warning / emergency state.

If you wish to discuss any aspect of this submission further, please contact Thomas Lozanov at <u>thomas.lozanov@originenergy.com.au</u>.

Yours Sincerely,

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