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Australian Energy Market Commission

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The AEMC's consultation paper – National Gas Amendment (ECGS reliability standard and associated settings) Rule

AGL Energy (**AGL**) welcomes the opportunity to make this submission in response to the AEMC's consultation paper on the rule change proposal to implement a reliability standard and associated settings in the east coast gas system lodged by Energy Senior Officials.

Key points

- The east coast gas system is forecast to experience increasing supply shortfalls over time.
- Action must be taken to mitigate these shortfalls, ensuring gas supply is secured to meet demand at prices customers can afford.
- While the Stage 2 Reliability and Supply Adequacy reforms represent a key step toward this objective, these measures alone are unlikely to prevent the forecast shortfalls in the coming years.
- We are committed to working collaboratively with policymakers and the AEMC on these reforms – and other necessary measures – as part of our broader commitment to securing sufficient gas supply for Australian customers at affordable prices.

About AGL

At AGL, we believe energy makes life better and are passionate about powering the way Australians live, move and work. Proudly Australian for more than 185 years, AGL supplies around 4.5 million energy, telecommunications and Netflix customer services.[1] AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emission, affordable and smart energy future in line with the goals of our Climate Transition Action Plan. We'll continue to innovate in energy and other essential services to enhance the way Australians live, and to help preserve the world around us for future generations.

Introducing a Reliability Standard

Form of the Reliability Standard

The rationale for adopting a dual reliability standard is to prevent erroneous conclusions regarding the adequacy of supply, infrastructure capacity, and demand response capabilities that could result from reliance on a single metric.

[1] Services to customers number is at 31 December 2024.

However, we consider there is a possibility that proposed dual standard may not fully capture all relevant reliability risks within the east coast gas system.

Both the annual USG measure and the peak day deliverability standard focus on the adequacy of supply relative to demand at either end of the temporal spectrum.

This approach may fail to identify gas supply adequacy risks that may arise:

- on individual days when the peak demand standard is not met
- during periods longer than a day but shorter than a year, particularly where these periods do not coincide with peak demand days

A possible example of this occurred in June 2022, when tight supply conditions, cold weather, and coal generator outages drove up gas demand over several consecutive days and led to elevated gas prices, triggered administered pricing in the Short Term Trading Market (**STTM**) and Victoria's Declared Wholesale Gas Market (**DWGM**), and raised serious concerns about short-term gas deliverability.

These events in part prompted the development of the Stage 1 Reliability and System Adequacy (**RSA**) reforms and remain highly relevant to the current Stage 2 proposals, including the introduction of a Reliability Standard. It is unclear whether the proposed dual Reliability Standard would adequately capture such reliability events. If not, we question the appropriateness and utility of adopting a Reliability Standard that may fail to address the type of event that prompted these reforms.

We encourage the AEMC to consider whether additional mechanisms or refinements to the Reliability Standard are needed to ensure that intermediate-period risks – such as multi-day (such as a rolling 7-day window) or seasonal shortfalls – are appropriately identified, assessed, and managed within the broader RSA framework. For example, the approach adopted by the ACCC Gas Inquiry, which provides both annual and quarterly supply-demand outlooks, could offer valuable guidance.

The proposed measures to align the RSA framework with AEMO's GSOO and VGPR – particularly the requirement for AEMO to include a 'reliability forecast' in these reports – could help address a potential gap in the Reliability Standard. However, as the draft rules (set out in the rule change proposal) define the reliability forecast in relation to the Reliability Standard, rather than as an independent measure, further clarity on how these elements would function – both individually and collectively – would help us better understand their intent and strengthen our contribution to the development of these important reforms.

Geographic scope of the proposed Reliability Standard

The proposed reliability standard is intended to apply across the east coast gas system, with the same dual-standard applying across all jurisdictions.

However, the consultation paper asks whether it would be appropriate to apply the same Reliability Standard in the Northern Territory (**NT**), given its distinct supply and demand characteristics.

We consider that if the policy objective is to establish a single gas Reliability Standard to apply across the east coast gas system, with the same dual standard applying across all jurisdictions, the NT should be included. This inclusion is supported by the NT's infrastructure connections and its potential impact on overall supply-side risks of the east coast gas system (refer to Section 4.2 and Figure 45 of AEMO's 2025 GSOO).

The fact that the NT's supply and demand characteristics are distinct does not, on its own, justify separate treatment. Each jurisdiction within the east coast gas system has unique characteristics. For example, Victoria's supply-demand dynamics differ markedly from those in Queensland – and more broadly, the southern states exhibit significantly different profiles compared to Queensland.

Governance arrangements

In terms of governance arrangements, our preference is for the Reliability Standard to be set by an independent panel made up of expert representatives from across the gas industry including end users/customers modelled on the current National Electricity Market (NEM) Reliability Panel.

The rule change proposal's draft rules

We make the following comments in response to the draft rules, for consideration by the AEMC:

- There is currently no guidance on the overarching purpose of the Reliability Standard. Providing such guidance could help ensure that the design of the Reliability Standard aligns with the intent of policy makers. It may be worth considering whether the objective described at the beginning of section 3.2 of the rule change proposal is suitable for this purpose.
- The draft rules do not clarify how – or whether – demand should be forecast as part of determining the level of the Reliability Standard. We note that the GSOO currently includes three demand forecast scenarios; it may be beneficial for the rules to provide guidance on how demand forecasts are to be developed for this purpose. While the draft rules require the AER to prepare Gas Forecasting Best Practice Guidelines and AEMO to prepare Gas Reliability Standard and Forecasting Guidelines, these do not appear to apply to the AEMC in its role of determining the Reliability Standard.

Introducing a Value of Gas Customer Reliability

Using the Value of Gas Customer Reliability to inform the Reliability Standard

Jurisdiction-specific and customer-specific Values of Gas Customer Reliability (**VGCR**) are proposed to be used as inputs in determining the Reliability Standard. However, since the Reliability Standard is intended to apply across the entire east coast gas system, there is a risk that the granularity of jurisdictional and customer-specific insights embedded in individual VGCRs may be diluted, particularly if:

- there are material differences in reliability values across different customer types in different regions (e.g. industrial users in Queensland may value reliability differently to residential users in Victoria); and
- the uniform standard reflects an average or median value that may not align closely with the actual VGCRs in any given jurisdiction

This could lead to sub-optimal outcomes, including:

- underinvestment in jurisdictions with high VGCRs (where the standard allows too much unserved gas relative to local customer expectations)
- overinvestment in jurisdictions with lower VGCRs (where the standard is unnecessarily strict)

If these outcomes were to eventuate, they would seem inconsistent with the core issue the rule change proposal aims to address – namely, the 'risk that inefficient decisions will be made by market participants, AEMO, and policy makers about how to respond to reliability or supply adequacy threats'.

While it appears that the form of the VGCR will depend on the methodology developed by the AER, it may be helpful to clarify whether the policy intent is for the VGCR to reflect variations in customer risk tolerances and outage sensitivities. The east coast gas system serves a diverse customer base – including residential, commercial, industrial, and gas-powered generators – each with distinct consumption patterns and reliability needs.

For instance, industrial users may face significant economic losses from even brief outages, whereas residential customers may place greater value on avoiding disruptions that affect comfort, health, or safety. Capturing these sector-specific and often qualitative impacts within a quantifiable VGCR framework presents substantial complexity. Moreover, customer tolerance for outages may also vary by region and season — for example, between colder southern states that rely more heavily on gas for heating, and warmer northern jurisdictions.

The rule change proposal's draft rules

We note that the draft rules currently provide no guidance on the purpose of the VGCR. Including such guidance could help ensure that the VGCRs developed are consistent with the intent of policy makers.

Figure 1.2 of the rule change proposal illustrates the VGCR as an input to the Reliability Standard, while also indicating that it would inform the arrangements for determining and reviewing the Facilitated Market Price Settings.

The AEMC's consultation paper also raises an important question: whether it is essential for the price settings in the facilitated markets to use the Reliability Standard as an input, or whether they could instead be updated directly to reflect the VGCR. Clarifying the intended role of the VGCR – both in the draft rules and through this consultation process – would provide greater certainty and support more informed stakeholder engagement.

While the term 'Value of Gas Customer Reliability' is largely self-explanatory, the draft rules introduce a new defined term: the VGCR objective. This is defined as follows:

> *"The AER must ensure that the VGCR methodology, and any values of gas customer reliability calculated in accordance with that methodology, are fit for purpose for any current or potential uses of values of gas customer reliability that the AER considers to be relevant."*

This is a broad and open-ended definition. Stakeholders may benefit from further clarity on the intended policy purpose of the VGCR, with a view to having this explored and consulted on as part of the rule change process.

New arrangements for determining, and reviewing, the facilitated market price settings

The intent of the rule change proposal

We note that the rule change proposal claims that market settings may be providing inefficient investment signals and should be set at levels that:

- provide medium to longer term incentives for market participants to contract and invest in sufficient supply, infrastructure and demand response to meet the proposed reliability standard, while also;
- protecting and limiting the financial exposure of prudent market participants.

The STTM and DWGM were primarily designed to enable efficient short-run price discovery, support operational balancing, manage participant exposure to volatility, and maintain system stability. While these frameworks incorporate scarcity pricing – and can therefore support investment indirectly – this was not their primary design objective. Further, the rule change proposal does not present evidence of a causal link between current market price settings and distorted or inadequate investment outcomes.

Further, under the current market price settings, prudent market participants should be able to manage and limit their financial exposure to the facilitated markets. The rule change proposal does not appear to provide examples where this has not been the case, nor does it clearly explain how the proposed changes

to market price settings would better achieve this objective. Further information on this point would assist stakeholders in understanding the need for, and potential impacts of, the proposed reforms.

Changing the market price settings risks altering how the facilitated markets are used by market participants and the role they play in the east coast gas system. Consultation is therefore critical – both on the intended purpose of these markets (e.g. whether they are to remain primarily balancing mechanisms or evolve into something broader) and on how they interact with arrangements outside the facilitated markets, such as bilateral gas supply agreements (GSAs). Without this clarity, there is a heightened risk of unintended consequences.

Caution must be exercised when revising market price settings. For example:

- higher settings may incentivise contracting and investment;
- lower settings may discourage contracting and encourage reliance on the facilitated markets alone.

If policy makers intend for the facilitated markets to serve a different function than they do currently – such as shifting from an imbalance market to a broader market role – this should be clearly articulated so that stakeholders can be meaningfully consulted and appropriate market settings established.

Using the Reliability Standard and / or VGCR in determining the facilitated market price settings

As noted above, jurisdiction-specific and customer-specific VGCRs are proposed to inform the development of the Reliability Standard. However, given that the Reliability Standard is intended to apply across the entire east coast gas system, there is a risk that the granularity of jurisdictional and customer-level insights embedded in individual VGCRs could be diluted.

In relation to facilitated market settings, the draft rules outlined in the rule change proposal would require the AEMC, when reviewing facilitated market price settings, to consider how to minimise any distortionary impacts resulting from differences in settings across and within the regulated gas markets. The rule change proposal also states that misalignment in price settings across markets is likely to become increasingly problematic and could lead to a range of distortionary impacts.

While we agree that improving alignment across markets to reduce potential distortions is a valuable objective worthy of further consideration, pursuing uniform price settings across the STTM hubs (Adelaide, Sydney, and Brisbane) and Victoria's DWGM may conflict with the intent of incorporating jurisdiction-specific and customer-specific VGCRs. In practice, the detailed, jurisdictional, and customer-level insights these VGCRs seek to capture could be lost or significantly diminished by an overarching objective of price alignment.

The rule change proposals draft rules

The draft rules permit reductions to the market price cap or cumulative price threshold in the STTM, and to the Value of Lost Load (**VoLL**) or cumulative price threshold in the DWGM, even where such changes may result in the Reliability Standard not being met. The rationale for this provision does not appear to be addressed in the rule change proposal or the consultation paper. We consider that further information on this aspect of the draft rules would assist stakeholders and support a more robust and transparent consultation process.

Governance arrangements

In terms of governance arrangements, our preference is for the role of determining and reviewing the facilitated market price settings to sit with an independent panel made up of expert representatives from across the gas industry including end users/customers modelled on the current Reliability Panel.

Improvements to AEMO's existing 'risk or threat' notices and Gas Supply and Reliability Conference triggers

We are broadly supportive of the enhancements to AEMO's existing 'risk or threat' notices outlined in the rule change proposal. We consider that clearly informing the market about potential supply adequacy risks will increase the likelihood of market-led solutions, reducing the need for direct intervention by AEMO under the RSA framework.

Similarly, we support the rule change proposal's draft rule to require AEMO to convene a gas supply adequacy and reliability (**GSAR**) conferences if it identifies an actual or potential breach of the reliability standard in the GSOO or VGPR that is expected to occur within the next 12 months and require market participants to respond in order to mitigate the forecast breach.

Measures to align the RSA Framework with AEMO's GSOO and VGPR reports

We are broadly supportive of measures aimed at aligning the RSA Framework with AEMO's GSOO and VGPR reports. This support is contingent upon the issues raised earlier in this submission being appropriately considered and addressed, given their potential flow-on effects for the information reported in the GSOO and VGPR.

However, there appears to be a risk that, in preparing a 'reliability forecast' for the purpose of identifying forecast breaches of the Reliability Standard, certain gas supply shortfalls that would otherwise be reported might be overlooked.

For example, if the annual USG measure is set at 5%, does this imply that a shortfall would only be identified in the GSOO or VGPR if forecast demand exceeds supply by at least 5%?

Similarly, if the peak-day deliverability standard was established based on peak demand expected only once every five or ten years, would this, by definition, only identify gas supply shortfalls on those rare peak-demand days? In other words, could the inherent design of the peak-day deliverability standard result in multiple years of forecast daily gas shortfalls not being reported?

We consider the reporting of reliability forecasts – particularly regarding expected breaches of the Reliability Standard – to be valuable. However, this should supplement rather than replace existing forecasting approaches, as these provide greater clarity around potential shortfalls, irrespective of whether they are deemed 'acceptable' under the Reliability Standard.

Further, it may be worth considering how the east coast wide Reliability Standard would be applied in the VGPR, given its primary focus on the market dynamics in Victoria.

We would be happy to discuss our submission and the topics raised in the consultation paper in more detail with the AEMC if this would be useful. Please contact Warren Vosper at wvosper@agl.com.au.

Yours sincerely,

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