

CLASSIFICATION



Australian Government

Department of Climate Change, Energy,
the Environment and Water

Ms Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
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26 September 2025

Dear Ms Collyer

Submission to AEMC ECGS Reliability Standard and Associated Settings directions paper

I would like to thank you for the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) directions paper on the East Coast Gas System (ECGS) Reliability Standard and Associated Settings rule change request (GRC0076).

The Department of Climate Change, Energy, the Environment and Water's submission will focus on four key issues:

1. The proposed probabilistic metric
2. The proposed definition of 'operational timeframe'
3. The proposal to afford AEMO the role of determining the probabilistic metric, and
4. The proposed Gas Reliability Committee.

The proposed probabilistic metric

We note that the AEMC is considering a probabilistic metric for both:

- providing signals to the market as to RSA threats, including via the proposed objective threat signalling framework, and
- the gas shortfall forecast in AEMO's Gas Statement of Opportunities (GSOO) and Victorian Gas Planning Report (VGPR).

This differs from the reliability standard informed by a value of gas consumer reliability (VGCR) proposed in Energy Senior Officials' rule change request, and what applies in the National Electricity Market (NEM).

The AEMC's proposed probabilistic metric does not appear to reflect the efficient trade-off between the cost of providing reliability and the value that gas consumers place on reliability. Rather, the probabilistic metric seems to assume that a 100 per cent reliability standard should be maintained. We consider that this approach may risk the signal to the market losing its effectiveness and result in inefficient decision making by market participants and potentially AEMO. This risk is likely to be compounded if market participants perceived that AEMO had set the probabilistic metric too conservatively (discussed in further detail below).

Further, it is not clear how a probabilistic metric would provide the market with insight into the magnitude or duration of a threat, as a reliability standard would. For example, there could be 1 TJ shortfall that could trigger an early warning notice because there is a 5 to 15 per cent probability of it occurring. The probabilistic approach could therefore, for example, lead to frequent threat notice issuance and the associated risk that market participants may cease to respond to the threat notices. In contrast, an unserved gas or peak day demand target style reliability standard as proposed in the rule change request is intended to provide a clear and standardised indication of the magnitude and duration of the threat.

The reliability standard and VGCR proposed in the rule change request was intended to not only signal the market to respond to RSA threats, but also to send signals as to the *efficient* level of reliability - to guide investment, contracting and other decisions (including potential contracting by AEMO either through its trading function or the proposed Supplier of Last Resort tool) in the lead up to any potential threat.

In the absence of a measure that reflects the balance between the costs of providing reliability, and the value that consumers place on reliability, there is a risk that inefficient trade-offs could be made between reliability and supply interruptions. While this has always been a risk, as outlined in the rule change request the ECGS is becoming increasingly exposed to reliability and supply adequacy threats.

The proposed reliability standard and VGCR was also intended to provide AEMO with the guidance and guardrails for its RSA functions in the ECGS, including for the proposed Supplier of Last Resort. This is something industry stakeholders raised as being necessary during Officials' public consultation undertaken when developing the RSA Stage 2 rule change requests. It is important that the AEMC continue to consider the interactions between the four ECGS RSA Stage 2 rule change requests holistically to ensure they operate effectively together to promote the National Gas Objective.

The proposed definition of 'operational timeframe'

We note that the AEMC has defined the 'operational timeframe' for a reliability standard as ranging from intraday to 12 months. However, we consider there is a further distinction to be made, between:

1. what signals the market can respond to in the lead up to a potential threat, and
2. the response(s) when a threat has actually arisen.

Specifically, the proposed reliability standard (informed by a VGCR) was intended to provide market participants and AEMO guidance on the costs consumers are willing to incur to avoid curtailment *ahead* of an RSA risk, rather than using it to decide if curtailment should occur or who should be curtailed at the time of the risk.

The Department agrees that when an RSA threat has arisen, the reliability standard would have little role to play because steps would usually be taken at that time in an attempt to address the threat. This is akin to what happens in the NEM. However, the reliability standard and VGCR could still have an important role to play in the lead up to the threat, in the same way that it does in the NEM.

In the lead up to a threat a reliability standard could act as a signal for the various decisions that can be made by producers, infrastructure owners, retailers and other market participants within the

preceding year to avoid a threat actually arising. For example, the signal provided by a potential breach of the reliability standard could prompt:

- Producers to increase production or delay planned maintenance that was intended to occur in the period affected by the threat.
- Infrastructure owners to delay maintenance that was intended to occur in the period affected by the threat and in some cases to operate above nameplate capacity.
- Gas-powered generation to plan not to run or to use other fuels if possible.
- Retailers to move gas around their portfolios and make use of the flexibility within their gas supply and transportation contracts.
- Large gas users to decide not to consume or to reduce their consumption in the periods affected by threat, including by carry out maintenance in this period
- Liquefied Natural Gas (LNG) exporters to delay cargoes or take gas out of their own storage facilities.

The proposal to afford AEMO the role of determining the probabilistic metric

Asking AEMO to determine the probabilistic metric that will be used to signal when market participants should take action and guide its own actions could potentially risk AEMO setting the measure too conservatively. This could result in inefficient responses by both market participants and AEMO. It could also result in market participants ceasing to respond if they consider the metrics to be too conservative.

During Officials consultation with stakeholders in developing the rule change request, the majority of stakeholders supported according the AEMC responsibility for determining the reliability standard. Some stakeholders specifically noted that they were opposed to AEMO setting and reviewing the standard, citing concerns that such a role may conflict with AEMO's other roles. As such, and in direct response to stakeholders views, the rule change request proposed that it would be most appropriate for the AEMC to set the proposed reliability standard to promote objectivity.

The same risk likely exists with respect to the AEMC's proposal that AEMO be responsible for setting the proposed probabilistic metric.

The Gas Reliability Committee

There is a similar of conflict arising from the proposed Gas Reliability Committee (GRC) given its membership will include industry representatives who will have involvement in the settings for the markets in which they operate. It is unclear the additional value the proposed GRC would provide beyond the standard consultation process the AEMC could undertake to elicit input from all stakeholders.

A similar suggestion for a panel was made when Officials consulted with stakeholders on the Stage 1 RSA reforms. The decision was ultimately made not to provide for this in the NGL (in the same way it is in the NEL) as there were concerns about potential conflicts and the risk that changes may be challenging to make because of a potential bias for the status quo. The decision was instead made, as informed by stakeholder consultation findings, that from a governance perspective, the AEMC would be better placed for determining the reliability standard and facilitated market settings.

As the AEMC acknowledges in its directions paper, it is unclear how material an impact market settings can have in influencing investment decisions in the ECGS. The Department agrees that the market settings would have limited impact on promoting efficient investment, compared to the impact that a reliability standard (informed by a VGCR), could have when also incorporated into AEMO's GSOO, VGPR, and the proposed MT PASA.

Further, it is unclear from the directions paper how the proposed GRC will be better placed than the Australian Energy Regulator (AER) to estimate consumers' willingness to pay. The AER is likely to be more objective in their assessment than a committee which includes market participants but, as in the NEM, the AER should also be expected to develop an assessment methodology in consultation with stakeholders to promote a rigor and transparency.

I would like thank the AEMC for the opportunity to comment on the direction of its thinking under this rule change request process. If you have any questions about our submission, please feel free to contact Andrew Pankowski at andrew.pankowski@dcceew.gov.au.

Yours sincerely,



Kirsty Gowans

Acting Deputy Secretary, Department of Climate Change, Energy, the Environment and Water

