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Australian Energy Market Commission
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Dear Meredith,

Consultation paper – ECGS Supplier of last resort mechanism

Jemena welcomes the opportunity to respond to the Australian Energy Market Commission's consultation paper on the proposed National Gas Amendment (ECGS Supplier of last resort mechanism) Rule.

Jemena owns and operates a diverse portfolio of energy assets throughout Australia. With more than \$12 billion invested in major gas and electricity infrastructure, we deliver energy to millions of households, institutions, and industries every day. Our assets include the Jemena Gas Networks in New South Wales, the Jemena Electricity Networks in northwest Melbourne and gas transmission lines such as the Eastern Gas Pipeline, Queensland Gas Pipeline and Northern Gas Pipeline.

As a key gas pipeline service provider in the east coast gas system, we are intrinsically aware of the importance of a reliable, efficient and well-functioning gas market underpinned by stable and predictable policy and regulatory frameworks. This is essential to enable market participants to engage in the market, contract freely and effectively, and deploy the capital required to bring new supply and infrastructure to market. Repeated interventions in the gas market have however dulled the market signals and increased the risk to participants, manifesting in a chilling of investment, a tendency toward short-term contracting and conservatism. We acknowledge the efforts of the AEMC in seeking to define a mechanism to mitigate the risk of shortfalls in gas supply impacting Australian energy consumers and appreciate the inherent complexity of such a solution.

Concerns with a supply-side Supplier of Last Resort Mechanism

While a supply-side supplier of last resort (**SoLR**) mechanism may offer some short-term protection against acute supply disruptions in some circumstances, it is not a well targeted or cost-effective long-term solution to the structural decline in domestic gas supply nor can it restore market resilience and flexibility. The decline is driven by a combination of factors, including natural depletion of fields most adjacent to the large Australian demand centres, government policy interventions and regulatory disincentives impacting gas exploration, infrastructure projects and the operation of the gas market more generally. Market participants face significant uncertainty around long-term future demand, increasing regulatory burdens and ongoing interventions, all of which act as a disincentive to long-term contracting and investment. We note that the energy transition places additional pressure on electricity generation, which is forecast to be increasingly reliant on gas-powered generation (**GPG**) during peak demand periods, further heightening the risk of an acute gas supply shortfall.

The various policy and regulatory interventions to date have created significant uncertainty for market participants to make long-term contracting and investment decisions which ultimately lead to gas shortfalls. To address structural and acute gas shortfalls, a stable, supportive policy environment is necessary for market participants to develop new gas supply sources (onshore or via LNG re-gasification facilities) and invest in pipeline or storage capacity.

In our view, the role of any supply-side SoLR mechanism should be limited specifically to the purpose of avoiding **peak-day** gas shortfall between now and the structural shortfalls forecast to emerge from 2028, given the market has limited options to source more gas to address the forecast peak-day gas shortfall in southern Australian states during this period.

In parallel to any temporary, targeted supply-side SoLR mechanism, market signals and regulatory and policy settings should be improved to encourage proactive risk management and investment by participants to address structural gas shortfall risks beyond 2028, where there remains sufficient time and enough proposed projects capable of addressing supply shortfalls. For example, increasing the Market Price Cap for the Declared Wholesale Gas Market and Short-Term Trading Market could strengthen investment incentives and encourage market participants to proactively respond to emerging supply risks.

To preserve market incentives and to act as—and to be seen as—a last resort, an SoLR mechanism must be very targeted in scope, in terms of geographical areas, limited in duration and minimise supply-chain involvement.

For instance, where there are no barriers to market participants contracting for gas transportation services other than a lack of available gas supply, the SoLR mechanism should minimise major market distortions by merely making gas available as a last resort gas supplier, and allow market participants to contract the gas transport. In relation to question 14 of the consultation paper specifically, provided with the right price signals (i.e. market price cap settings), we consider that market participant with excess supply would be sufficiently incentivised to make gas available where it is needed most. Such market participants would be best placed to arrange gas transportation, mitigating the need for AEMO to contract for gas transportation or use its directions power.

A SoLR mechanism should also be confined to addressing the gas shortfall risk in the southern Australian states in winter months which are the most acute, and not throughout Australia or across the year. In other words, the SoLR mechanism should not be designed or expected to resolve all gas shortfall events that may occur between now and 2028, instead market participants should be encouraged to find solutions where such solutions are possible and available.

AEMO faces the same physical and commercial constraints as market participants in contracting gas for addressing medium to long-term gas demand. It does not have access to exclusive reserves or infrastructure. Any reserve capacity or supply options that AEMO can procure are equally available to market participants through the same market mechanisms. In other words, in the medium to long-term, there is a risk a SoLR mechanism would crowd out private contracting, potentially including that which leads to supply and infrastructure investment, that would otherwise occur.

Therefore, the design of the SoLR mechanism—including the principles, parameters, and activation triggers—should place critical importance on avoiding crowding out private contracting and investment. It should be narrowly targeted making incremental supply available to address peak-day gas shortfalls that may arise before 2028, rather than

structural supply shortfalls beyond that timeframe. Otherwise, it would erode market participants' incentives to contract sufficient gas to meet forecast demand in the long run and may inadvertently penalise those market participants who have made prudent risk management decisions via contracting.

If the market comes to rely on the SoLR mechanism over time, the cost of avoiding future shortfalls may also rise, particularly if market participants continue to delay action and investment in expectation of central intervention—while the risk of gas shortfall continues to grow.

We support, in principle, the use of a tiered risk/threat signalling framework, as contemplated by the AEMC in the *ECGS Reliability Standard and Associated Settings* rule change process. These frameworks will allow the market to understand the risk / threat and where possible, respond. To preserve the SoLR mechanism as a genuine last resort, its activation should be contingent on the highest tier of probabilistic risk of a gas shortfall.

However, we do not support the inclusion of specific operational factors as part of the trigger for activating a SoLR reserve. Prescribing such factors may unnecessarily constrain AEMO's discretion or flexibility to act as a last resort under what could be a wide variety of circumstances, and could inadvertently create expectations among market participants that AEMO intervention would be sufficient and/or certain when the triggers arise. AEMO's discretion and discipline in using any SoLR reserve will preserve some incentives for market participants to seek out gas supply to minimise exposure to extreme market conditions.

Importantly, the design of the preconditions and triggers should avoid imposing additional reporting obligations on pipeline service providers or facility operators to identify supply threats. Such requirements risk duplicating existing obligations under the Projected Assessment of System Adequacy framework, adding unnecessary regulatory burden without clear benefit.

Administered demand response mechanism

In principle, we support the further exploration of an administered voluntary demand response mechanism to help mitigate the risk of involuntary curtailment to customers. As identified by the AEMC, there may be some practical barriers to customers providing and/or having sufficient incentive to provide demand response in the ECGS. To ensure the mechanism is effective, the activation fee should, at a minimum, cover the opportunity costs incurred by demand response providers for foregoing their contracted gas and associated services (such as storage and pipeline capacity). A competitive tender process would help identify the most cost-efficient providers, ensuring fair compensation while maintaining market efficiency and could be in place ahead of any likely shortfalls.

We do not support mandatory participation in the demand response mechanism, as it may undermine customers' incentives to invest in long-term supply and infrastructure services. If there is a risk that the value of these services could be redistributed to others through the administered demand response mechanism, it may discourage proactive investment and planning by individual customers. If AEMO curtails customers' demand based solely on their load characteristics and level of flexibility, without considering opportunity costs or broader economic consequences of curtailment, it may disincentivise customers from pursuing innovative solutions to increase their flexibility or adopt alternative fuels.

For demand response to be effective, customers capable of providing demand response services should be adequately prepared for activation scenarios. Establishing a pre-qualified panel would offer greater certainty for participants and enhance AEMO's operational

readiness. However, the mechanism should remain flexible, allowing new potential providers to express interests to join the panel or register as backup participants to ensure responsiveness and inclusivity. In each circumstance, consideration would need to be given to the location of the shortfall and of the customer to ensure the intended benefit of the demand side response would be realised.

Should you have any questions please do not hesitate to contact James Harding, Gas Markets Regulation Manager, at james.harding@jemenas.com.au.

Yours sincerely,

Ana Dijanosic

General Manager Regulation