

AEMC ECGS SUPPLIER OF LAST RESORT MECHANISM - CONSULTATION PAPER (GRC0077)

30 OCTOBER 2025

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Gas Objectives (NGO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under the AEMC East Coast Gas System (ECGS) Supplier of Last Resort (SoLR) Mechanism - Consultation Paper (GRC0077).

The EUAA supports proposed rule changes where evidence points to an issue and the proposed rule change clearly leads to improved efficiency of markets and/or improved system security and where the costs and risks are appropriately allocated to those best able to manage them.

We have contemplated the current Consultation Paper alongside the other Reliability and Supply Adequacy (RSA) stage 2 rule changes; Projected Assessment of System Adequacy, Notice of Closure and Reliability Mechanism.

We have also considered the different types of gas consumers amongst our membership base, ranging from the largest gas consumers in the ECGS who have their own Gas Supply Agreements (GSA) and Gas Transportation Agreements (GTA), to our moderate gas consumers with retail contracts.

We have also considered the temporal separation between the extraction, treatment and injection of gas into the ECGS and the time that consumers utilise that same gas.

Given the large variation in consumption, contracting and needs of our members, we have followed a principles-based approach to this submission.

From first principles, we believe that the gas market serves its customers, and not the other way around. All following comments and recommendations follow this principle.

SoLR MECHANISM

While generally supportive of a SoLR and a SoLR mechanism, we are concerned with the additional cost of establishing, operating and maintaining a SoLR reserve on consumers into the future. Depending on the quantity of gas that AEMO deems necessary to maintain in the SoLR reserve, particularly for southern jurisdictions in the ECGS, the establishment cost could be quite significant and exceed the existing \$35 million AEMO ECGS trading fund.

We perceive, that similar to the NSW Roadmap fund, where \$500m will be collected from NSW consumers with no additional infrastructure on the ground, the temporal separation between the imposed establishment costs of a SoLR reserve and the benefits from using the reserve for consumers supports our recommendation that government(s) fund the establishment as there are significant state and national benefits in maintaining a level of security in the ECGS and each jurisdiction will have its own risk profile for gas reliability. Alternatively, the gas production and pipeline industries could fund the establishment of a SoLR reserve as the market failure is well known to be on the supply side, not the demand side e.g. consumption of gas has only increased in GPG and arguably recent demand destruction in the C&I sector has prevented actual gas shortfalls in the ECGS.

After establishment, we see the price of selling the gas into the market when the ECGS Reliability Standard and ECGS projected assessment of system adequacy (PASA) trigger the need, will offset the cost of refilling the reserve and offsetting future operational and maintenance costs of the SoLR reserve, i.e. after the initial reserve is established, the ongoing costs should be minimal.

From that perspective, we support the AEMC's intent that any intervention by AEMO must not cost more than the ECGS Reliability Standard's willingness to pay (or other price measure as established through the *ECGS Reliability Standard and Associated Settings Rule Directions Paper* (Directions Paper))

ESTABLISHING A SoLR RESERVE

As we submitted to the Directions Paper, we recommend that there is a need for a probabilistic three-tiered reliability threat mechanism, similar to the Lack of Reserve (LOR) in the National Electricity Market (NEM). To avoid confusion and in recognition that the market is best placed to respond to supply/demand imbalances that create reliability issues (both in the planning and operational timeframes), we suggest the ECGS threat mechanism be called a "*Lack of Supply*" (LoS) mechanism.

Similar to the NEM, having a three-tiered structure of e.g. LoS1, LoS2 and LoS3 allows ECGS wholesale market participants, the gas industry and consumers to properly understand the threat and the likelihood of the threat occurring. An LoS system of threat notification allows our members and retailers to respond to manage the risks associated with a LoS.

As mentioned in our submission to the Direction Paper the NGR's current deterministic "threat notice" mechanism for advising the market and consumers of reliability issues in the ECGS is inefficient and counterproductive. This is due to the inability of the market and consumers to understand the level and probability of the threat to reliability and therefore actions that may be taken to avoid that threat causing inefficient responses from AEMO, the market and consumers.

The inefficiency of the current threat notice rules was highlighted by AEMO's response in June 2024 to a reliability issue; whereby AEMO issued a threat notice and advised our members in writing and verbally that they may have their gas supply interrupted rather than enforcing reliability from the market. As you can imagine, this caused unnecessary stress and anxiety for affected member companies and their boards. Our members found this approach to be entirely unacceptable, particularly in the Designated Wholesale Gas Market (DWGM) where AEMO saw the largest threat.

Worse still, even though AEMO is the supplier of last resort for the DWGM with its Dandenong LNG facility, AEMO did not release gas from this reserve to assist with the projected supply/demand imbalances.

Given the temporal displacement of gas production and gas consumption, the peak demand in winter in the southern states of the ECGS and the constraint on the north/south pipeline that supplies the southern states, we believe that establishment of a SoLR reserve should not "wait" until an LoS is forecast, as it will likely be too late to fill the SoLR reserve and prevent the LoS from occurring. Instead, we recommend that the SoLR reserve is viewed as a "strategic reserve" and is maintained at all times. A strategic reserve places pressure on the existing gas market participants to ensure supply is maintained to meet demand to avoid an intervention.

The strategic reserve status of a SoLR reserve aligns with our recommendation that government(s) (for national or state interests) and/or the production/pipeline industries fund the establishment (over and above the existing \$35 million trading fund), as they can adequately manage the risk of intervention by boosting supply or reducing pipeline constraints.

We also believe that the Dandenong LNG arrangements be rolled into the SoLR mechanism to reduce administrative burden on AEMO and create one set of consistent rules across the ECGS. This will also allow for the first portion of the strategic reserve to be low cost, reducing the overall establishment costs.

RESPONSIVENESS TO PRICE

As almost all our members have GSAs or retail contracts, spot-prices in the short-term trading market (STTM) and DWGM have little bearing on them. It is a common amongst our members that they have contracts in place for gas volumes and gas transportation for (mostly) flat 24/7/365 gas supply with very little to no fluctuations.

If affected by price, generally there is very little room in our members facilities to facilitate a "demand" response to supply shortfalls as the production facilities utilising gas are either all on, or all off. This is a different scenario to electricity demand response where ancillary services (refrigeration, HVAC etc) can be turned down and or production can be slowed to allow for large equipment to be placed in a "holding" pattern e.g. large smelting pots. Amongst our members gas is used for

- food processing facilities - sterilisation and/or cooking in, which can not be turned down for food safety reasons or perishable nature of the resource
- retail and shopping centres - space heating for customer comfort, noting that customers seek shelter from extreme temperatures at shopping centres and retail facilities on both extremely hot days and extremely cold and so demand response at either time is unavailable
- industrial facilities – for high temperature heat or as a chemical input that can't necessarily be turned down i.e. reducing the heat part way through drying bricks changes the physical properties of the bricks, making them unsuitable for building

ADMINISTERED DEMAND RESPONSE MECHANISM

We disagree with the suggestion that consumers should need to respond to reliability issues caused by inadequate infrastructure, supply or gas producer preferences. We suggest that more work needs to be done to define what the probabilistic definitions are for an LoS1, LoS2 and LoS3, including a suitably tiered Probability of Exceedance (PoE) metrics, however, in general the market should be targeted for a response, not consumers.

However, due to the flat loads and critical nature of gas supply to our members, and that they are not contributing to the fluctuations in gas demand, if the AEMC and other market bodies/government officials insist on demand response, we firmly believe that those responsible for the peak demand days and therefore the LoS state should be the ones targeted for a demand response, not those with flat loads.

It is therefore our opinion that the contracts signed by our members should be honoured and gas supply maintained throughout any LoS or system reliability issues.

For all of the reasons above, should AEMC proceed with a gas demand response register, we do not see the level of registrations being at the level that AEMO or AEMC expect, and definitely not enough to prevent a LoS scenario.

In recognition that AEMO has powers (as a last resort) to curtail supply, for any gas demand response to come from our members prior to AEMO implementing curtailment, an LoS3 notification would need to be made in advance (>1 week for some, >2 weeks for others) of the forecast LoS3 event with a financial incentive larger than the opportunity cost (i.e. the value of lost production plus standing operational costs and penalties). As most of our members are either “all on” or “all off”, the incentive cost would be for an entire production line or plant, and not just simply slowing production.

We do not believe any demand response is warranted for LoS1 or LoS2 situations.

ACCOUNTABILITY AND TRANSPARENCY

We support reporting requirements on AEMO to require transparency to enable trust to be built between AEMO, market participants and consumers.

For LoS notifications to be taken seriously by market participants, the gas market and consumers, AEMO will need to build trust with them through appropriate reporting and justification of its ECGS PASA forecasting and ECGS LoS declarations.

On that basis we believe that AEMO needs to demonstrate that it can accurately forecast supply and demand in each of the proposed sub-regions of the ECGS.

EUAA considers that AEMO’s forecasting in the NEM are regularly overstated and that directly leads to unnecessary market interventions that are costly to the end consumer. Unfortunately, previous attempts by AEMC to have AEMO report on NEM forecasting through descriptive recommendations and AEMO preparing its own reporting guidelines has resulted in a minimalist effort by AEMO with no real ability to improve forecasting and very little useful information for market participants or consumers.

From that perspective, the EUAA would encourage:

- the AEMC to prescribe how the accuracy of ECGS PASA forecasts are communicated through a regular report that compares the Forecast and Actual supply and demand market outcomes to determine accuracy,
- In line with this, the EUAA encourages the AEMC to embed prescriptive requirements for reporting in the NGR for regular Forecasting and Accuracy Reports (monthly through peak gas consumption periods and quarterly in non-peak periods rather than annually) that cover all of AEMO's ECGS forecasting requirements and compares against actual market outcomes, including a process for improving forecasting where an issue is identified in the report.
- Individual incident reports where PASA forecasting led to an LoS declaration (i.e. identifying the cause and market response) and separate reporting for AEMO interventions through the SoLR mechanism (including SoLR injections and/or demand response and costs of the interventions), to build trust between AEMO forecasts, declarations and interventions and the gas industry and consumers.
- The EUAA would encourage the AEMC to consider how such reports could be prepared by an independent market body (either AER or AEMC) to ensure impartiality in the report's preparation. This is warranted given that AEMO will be preparing ECGS PASA forecasts, making LoS declarations and will also be the SoLR with the powers of intervention. We see that AEMO reporting on its own activities is a major conflict of interest.

CONCLUDING REMARKS

While we support the development of the ECGS security mechanisms and SoLR, we are concerned that the SoLR will place significant upward pressure on our members gas costs at a time when they are already overwhelmed with energy supply and affordability issues. While it might be easy to allocate costs on a consumption basis, this methodology will definitely place upward pressure on the items our members produce that reduces their competitiveness with imported goods. The products produced by our members contribute to the items in every household in Australia, placing further pressure on households and the cost of living.

We therefore encourage the AEMC to speak to government(s) to fund (over and above the existing \$35 million AEMO ECGS trading account) the establishment of the SoLR reserve and/or find alternative cost distribution models that allow the competitiveness of Australia's industries with foreign imports.

In addition, we also encourage AEMC to find a real and meaningful way for AEMO (and/or others) to report on the ECGS security and reliability mechanisms that leads to demonstrable improvements in the processes that are about to commence.

The EUAA welcomes on-going discussions around the issues raised in this submission. Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.



Andrew Richards

Chief Executive Officer