

This document represents the views of the relevant AEMC project teams, based on the draft rule, and should not be taken to represent the views of the Commission.

## Information session on understanding the draft reliability arrangements for the east coast gas system (ECGS): questions and answers

On Friday, 13 March 2025, the AEMC hosted an online information session on the ECGS Enhancing reliability and supply adequacy arrangements (ERSAA) and the ECGS Supplier of last resort (SoLR) mechanism draft determinations. The slide pack presented at the session is available from the project's website.

This document sets out questions raised by attendees and the project teams' responses. **This document represents the views of the relevant AEMC project teams, based on the draft rule, and should not be taken to represent the views of the Commission.** Some questions have been lightly edited for clarity.

If you have any follow-up questions, please contact the project teams through the relevant project pages on the AEMC website.

### ECGS Enhancing reliability and supply adequacy arrangements

#### 1. Are there timelines/time ranges against each tier?

The draft rules would require AEMO to consider the timing and duration of any identified risk or threat within the severity assessment.

It is expected that when AEMO develops the risk or threat procedures, risks or threats forecast to last for longer durations or that are expected to occur within a shorter term would be higher in severity, all other factors held constant.

The weighting that timing and duration have in determining the severity of an identified risk or threat would be determined in the risk or threat procedures.

The draft rules don't prescribe timeframes for each risk or threat tiered notice to be "active", and instead allow for AEMO to vary or revoke notices as the tier classification changes due to a change in forecast circumstances.

For more information, see Chapter 3 of the ERSAA draft determination.

#### 2. Will there be Rules drafted that provide guidance to AEMO in developing the procedures so we do not end up in a situation where winter is continually under threat notices, e.g., due to the range of weather possibilities (i.e., cold and wind/GFG), and how possible redirection of LNG gas volumes should be treated?

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Yes. The draft rules do guide AEMO in developing the procedures, specifically to support proportionate and transparent risk and threat signalling and to avoid persistent or undifferentiated “threat” notices (including those driven by a wide range of possible winter weather outcomes).

Under the current arrangements, the signalling framework is effectively flat or binary, which limits AEMO’s ability to communicate differences in the severity or likelihood of potential risks or threats. The draft Rules introduce a three-tier framework, allowing notices to be escalated or de-escalated as underlying system conditions change. This enables AEMO to more clearly communicate differing levels of potential impact, rather than relying on a simple binary framework that could leave the ECGS in a perpetual threat state.

Additionally, the tiers are to be developed in the risk or threat procedures, meaning AEMO must consult with stakeholders when developing them, providing an avenue for industry input on how weather uncertainty and seasonal variability would be treated in practice.

The draft rules do not prescribe how specific LNG gas volume redirections must be treated.

For more information, see Chapter 3 of the ERSAA draft determination.

### **3. What does the AEMC consider to be an “adequate” amount of time for industry participants to respond?**

The time for industry participants to respond to a threat would be determined and communicated by AEMO in relation to a tier 3 threat. This will vary depending on the nature and circumstances of the specific risk or threat. We consider that specifying a fixed duration may fail to address the full range of possible scenarios and would risk being too short or too long in many circumstances. Additionally, AEMO is better placed to accurately determine the time required for an adequate response, given its operational knowledge and experience.

The rules would require AEMO to provide an estimate of the latest practicable time for an adequate industry response to occur before AEMO acts as the Supplier of Last Resort, exercises its direction or trading function in respect of that tier 3 threat.

For more information, see Chapter 3 of the ERSAA draft determination.

**4. GRC should also consider the interaction of market price settings with the electricity market as well.**

The draft rules would require the GRC to consider prices, supply, capacity, operability, and financial risk when reviewing the market settings levels. These requirements, similar to those in the NEM, would set clear, predictable expectations for the GRC's deliberations. While these factors would be explicitly stated in the rules, the GRC is not limited to these factors only, and the AEMC expects that the GRC would consider a range of relevant issues when reviewing the market settings levels.

Additionally, any future terms of reference or guidelines may include other considerations.

The AEMC welcomes any input in your submissions on what should be set out in the rules for all reviews, versus what should be a more flexible option for the GRC.

For more information, see Chapter 4 of the ERSAA draft determination.

**5. Given that both rule changes are closely related and are due to have the same final determination date, would the AEMC consider aligning the ERSAA submission date with the SoLR submission date, i.e. so submissions to both rule changes are due on 23 April?**

The AEMC considered aligning the submissions' deadlines but received stakeholder feedback to stagger the deadlines to allow time between submissions so that stakeholders can manage preparing submissions against both rule changes.

**6. Do we have more details on how the thresholds of the three tiers are determined?**

Under the draft rules, AEMO would be required to make the risk or threat procedures governing the assessment and classification of identified risks or threats. Within the risk or threat procedures, AEMO must identify three tiers for classifying an identified risk or threat according to the need for an industry response (each a risk or threat tier). Each risk or threat tier must have a number and a descriptive name, with tier 1 indicating the lowest need for an industry response and tier 3 the highest. The draft rules also provide principles for AEMO to conduct the severity and probability assessments, which inform the tier classification.

The rules would not specify how the thresholds are set, but given they would be documented in the procedures, AEMO must consult with industry when developing them.

For more information, see Chapter 3 of the ERSAA draft determination.

**7. The new rules refer to a Market Setting Instrument. Will there be consultation on this?**

In determining the market settings (via the instrument), the AEMC will have regard to the report and recommendations from the representative Committee (GRC) and may consult as it considers appropriate.

If stakeholders would like the AEMC to consider a different approach, please outline this and the reasons why in your submission.

For more information, see Chapter 4 of the ERSAA draft determination.

## ECGS Supplier of last resort mechanism (SoLR)

**8. Does the market get suspended if AEMO intervenes in the market?**

No, AEMO's use of the supplier of last resort (SoLR) mechanism does not change or trigger existing market suspension arrangements. The SoLR mechanism and the market suspension arrangements are independent of each other. The facilitated markets may continue to operate under normal conditions or under administered pricing arrangements when AEMO is using SoLR.

**9. If supply is less than demand, what gas does AEMO expect to be able to contract? Can AEMC provide some actual examples of how this would work in practice?**

AEMO may be able to contract uncontracted gas or gas available under flexible contractual arrangements. AEMO could also use services such as voluntary administered demand response.

For further information, please see Chapter 3 of the SoLR draft determination.

**10. What penalties exist for withholding services to market participants because the supplier may be able to get a higher price from AEMO, which worsens the original threat? How is AEMO buying gas if the market does not have the gas? Is there a requirement for services to create additional infrastructure so that it does not restrict supply to market participants?**

While there are no penalties in the draft rule for economic withholding, participating in the SoLR mechanism would have a higher risk compared to participating in normal gas market conditions because there is no guarantee that a SoLR contract would be activated by AEMO. This risk would dampen incentives for economic withholding and

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encourage prospective SoLR service providers to participate in the gas market if they are able.

Additionally, a participant contemplating economic withholding should also consider that the market will be expected to respond first to a risk or threat, and AEMO must consider using other tools available to it before establishing the SoLR mechanism.

If AEMO decides to establish a SoLR services contract, AEMO must run a competitive tendering process, which should place downward pressure on SoLR contract prices.

Regarding what services AEMO can purchase, see question 9 above.

There is no requirement for suppliers to build additional infrastructure under the SoLR mechanism.

For further information, please see Chapter 4 of the SoLR draft determination.

**11. How would an \$800/GJ price limit act to constrain AEMO's costs? Is the AEMC aware of any GSAs or contracts for other gas services with a price anywhere near \$800/GJ? I doubt any market participants are willing to pay up to \$800/GJ - meaning AEMO will be able to out-pay any party. How does this incentivise market-based solutions to supply risks?**

The price limit sets the maximum amount that AEMO would pay when considering market offers to supply SoLR services through its competitive tendering process. In practice, the price paid by AEMO could be a lot lower than the price limit.

The price limit is designed to be high enough to encourage additional supply or demand response when the facilitated markets may already be at a price cap, while limiting the risk of excessive costs or market distortion. This level sits above typical commercial contracting arrangements and is not expected to be paid by market participants under normal conditions.

Key features of the SoLR mechanism in the draft rule that incentivise market-based solutions include that the market should respond first to threats of gas shortfalls, and that AEMO should use other tools in the facilitated markets if it can before it considers using the SoLR mechanism.

For further information, please see Chapters 4 and 5 of the SoLR draft determination.

**12. Shouldn't the market price be at \$800 as soon as AEMO uses a SoLR contract?**

The price in a facilitated market is determined independently of whether SoLR is used. As noted in question 8, the draft rule would not change market pricing mechanics.

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The price paid by AEMO for SoLR services is set through AEMO's competitive tendering process for SoLR services. The price limit is the maximum amount AEMO could pay for a SoLR services contract. In practice, depending on the outcomes of a particular tendering process, the price paid by AEMO could be a lot lower than the price limit.

For further information, please see question 11 above and Chapters 4, 5 and 6 of the SoLR draft determination.

**13. If AEMO is supplying the market from a SOLR contract at a given time, is it bid into the market at a price above the max, so that the market price settles at the max (or APC) at the time?**

AEMO would not bid gas into the market directly; instead, the SOLR service provider would submit bids. Those bids would be structured according to the contract with AEMO so that SOLR gas is dispatched last, ensuring that normal market bids are dispatched first and minimising market distortion. The use of SOLR gas would not automatically set the market price at the price cap or administered price cap, as market prices would be set in the usual process (see questions 8 and 12).

For further information, please see Chapter 6 of the SoLR draft determination.

**14. How often will the SOLR tender be run? Does AEMO assess and award the tender contracts?**

SOLR tenders are not run on a periodic basis; they are event-driven i.e. if there is an identified threat. A tender process may occur only when the preconditions for establishing SoLR service contracts are met, and AEMO deems it appropriate. When SoLR is triggered, AEMO would run the competitive tender process and evaluate bids against established assessment criteria, awarding contracts where appropriate. Details of the process will be set out in the ECGS Procedures.

For further information, please see Chapter 6 of the SoLR draft determination.

**15. How does the AEMC propose to attribute a demand shortfall to a specific region? If costs are to be allocated / recovered on this basis, does the AEMC have a view on whether the demand from LNG exporters would be included, or how particular jurisdictions that experience a shortfall due to their gas production going into other states would be treated?**

The draft rules set out a SoLR cost recovery framework that is intended to be flexible and proportionate, with costs allocated by AEMO based on demand in the location and

period associated with the threat. This flexibility allows AEMO to consider the context of the reliability threat it is addressing. There will be supporting guidance in the ECGS procedures.

In addition, as provided in the NGL, “relevant entities” are the parties to whom cost recovery applies. The term was created to refer to parties across the ECGS, even those outside a facilitated market. As noted in the draft determination, AEMO may seek recovery of its costs arising from a threat from “relevant entities” within the relevant location.

For further information, please see Chapter 7 of the SoLR draft determination and the response to Q20 below.

**16. Has consideration been given (or will it be given) to how these changes might interact with the national gas reservation scheme announced by the Government in December?**

The AEMC has considered the interaction with the proposed national gas reservation scheme, but can only make rules based on the regulatory framework currently in place. The AEMC will proceed with finalising the rule changes as scheduled and could consider adjustments in the future if policy settings change.

**17. What happens if there is an unforecast wind drought and more gas-powered generation is urgently needed? How fast can SoLR be tendered?**

The tendering process will be detailed in AEMO’s ECGS Procedures. However, consistent with governments’ policy intent, SoLR is not designed as an emergency response tool. Directions and emergency powers can be used in extreme circumstances to resolve urgent issues.

For further information, please see question 3 above and Chapter 6 of the SoLR draft determination.

**18. Does cost recovery apply to load within the jurisdiction that sits outside of STTMs and DWGM boundaries?**

Cost recovery applies across the entirety of the ECGS. However, the entities that may be required to pay for AEMO’s costs associated with using the SoLR mechanism for an identified threat would depend on the location and duration of the specific threat. It is not intended to be automatically spread across the entire ECGS.

For further information, please see chapter 7 of the SoLR draft determination.

**19. You've created a valuable free-market mechanism, and there seems little reason to keep responding to ongoing threats about supply withdrawal. When the price cap was set at \$12, it effectively became the new floor. By the same logic, the \$800 level now appears to be the benchmark the market will move toward going forward.**

The SoLR mechanism is expected to be used only in exceptional circumstances. As a result, the SoLR price limit is also only relevant in these limited circumstances to guide AEMO on the maximum amount it should pay for SoLR services. The draft rule does not create a mechanism for AEMO's SoLR price limit to inform prices in the facilitated markets.

As noted above (questions 8, 12, 13), the draft rule does not change the operation of the facilitated markets. In addition, the SoLR price limit will be reviewed periodically by the Gas Reliability Committee as part of its market settings review.

For further information, please see Chapter 4 of the SoLR draft determination.

**20. However, the larger issue remains: why is the recovery of these costs being focused on a relatively small domestic market when the majority of Australia's gas production is being exported?**

Costs would be recovered from relevant entities as defined in the NGL for the ECGS.

At present, for the ECGS reliability and supply adequacy functions, the relevant entity is defined in s 91AF(8) of the NGL (see page 64 of the SoLR draft determination).

Currently, the Commonwealth and jurisdictions are consulting on introducing another reliability and supply adequacy tool for AEMO to use to support supply-side investments in gas. This is called the long-term reliability and supply adequacy tool (LT RSA). The LT RSA package proposes, among other things, to expand the definition of relevant entities as it relates to AEMO's ECGS powers to include LNG service providers and suppliers.

**21. Regarding AEMO to consider AEMO's other functions, can the NGR articulate the merit order of AEMO's functions? What should the market expect them to do and in what order?**

It is important for AEMO to have flexibility in responding to threats so the response is fit for purpose. For this reason, the Commission has not specified a merit order for AEMO to use its other functions.

For further information, please see Chapter 5 of the SoLR draft determination.

**22. This all seems to have huge faith in the 3 Tier trigger system, i.e., can it respond quickly to situations that were not forecast?**

As noted in question 17, SoLR is not intended as an emergency response tool.

Where an emergency situation occurs, AEMO would have directions and emergency powers as required to resolve urgent issues.

For further information, please see question 3 above and Chapter 5 of the SoLR draft determination.

**23. Are you allowing verbal submissions from consumer advocates?**

The AEMC is available to discuss the draft determinations with stakeholders. This could include arranging the notes of a meeting to be treated as a submission. Please get in touch with the project team via the AEMC website.

Submissions are requested by COB Thursday, 9 April, for ERSAA and 23 April for SoLR. Please note we will be working to achieve our final determination publication dates on 25 June, and so we may find it difficult to fully consider late submissions.