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23 April 2026

Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000

Submitted online at: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Project Leader,

### **Submission: Gas Supplier of Last Resort Mechanism**

CS Energy welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC's**) draft determination – *East Coast Gas System (ECGS) Supplier of Last Resort Mechanism* released for consultation on 26 February 2026.

#### **About CS Energy**

CS Energy is a Queensland Government owned corporation that provides power to some of the State's biggest industries and employers. We generate and sell electricity in the wholesale and retail markets, and we employ over 700 people who live and work in the regions where we operate.

CS Energy owns thermal power generation assets, and we are building a more diverse portfolio. We also have a renewable energy offtakes portfolio of almost 300 megawatts, which we supply to our large commercial and industrial customers in Queensland. CS Energy is developing a 400 MW gas-fired peaking generator at Brigalow near Kogan Creek in Queensland.

#### **Overall views**

Ensuring reliability and supply adequacy (**RSA**) in the ECGS is critical for supporting residential and industrial gas users and a timely energy transition. Recent works undertaken by the AEMC have aimed to improve the quality of information available regarding emerging RSA threats, along with system planning and response mechanisms.

The Supplier of Last Resort (**SoLR**) mechanism is a crucial backstop amongst these RSA arrangements. The SoLR is intended to be the last line of defence for gas users, and as such, it is critical that its design reflects the seriousness of the environment in which the mechanism would be triggered, along with the interests of gas consumers.

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The current proposal is well intended but presents a risk of significant costs being levied on customers; potentially procuring gas services at prices above the Value of Gas Customer Reliability (**VGCR**). More careful consideration must be placed on ensuring the mechanism does not distort the signals received by market participants and that responses are proportionate to the risks the market faces and the appetite of participants.

### **SoLR Trigger**

CS Energy firmly supports the need for sufficient guardrails to ensure that the SoLR mechanism is only triggered as a *last resort*. To ensure this, the Australian Energy Market Operator (**AEMO**) must be held accountable in exercising every tool in their arsenal (where applicable) and giving the market sufficient time to respond to a threat organically, *before* triggering the mechanism. AEMO should retain the discretion to not trigger the mechanism where there are suitable grounds to avoid its use.

In the 2022 energy crisis, shadow prices in the Declared Wholesale Gas Market (**DWGM**) reached the Market Price Cap (**MPC**) (or Value of Lost Load (**VoLL**)) in several periods. However, these prices never materialised as the market consistently responded in a proportionate manner. As such, until the market gives AEMO significant signals to believe it cannot resolve RSA threats on its own, AEMO should not feel obliged to intervene.

CS Energy supports the work done as part of the ECGS reliability standard and associated settings rule; specifically, the introduction of a probabilistic tiered risk-signalling framework. This framework provides a clear means to escalate/ de-escalate an RSA threat depending on the severity of the threat and response from market. CS Energy supports this framework forming part of the trigger for the SoLR but once more cautions that participants should be allowed ample time to resolve threats organically.

### **Market Implications**

The ECGS is facing a period of significant change, much of which is policy driven, through the Gas Market Review. A core focus for the review is addressing the disconnect that exists between large gas users and producers. Liquidity in contracting, particularly longer-term, has declined over the past decade amidst growing regulatory uncertainty and the lack of a clearly defined role for gas into the future.

CS Energy is concerned that the presence of the SoLR, without sufficient guardrails to mitigate its unwarranted use, may worsen the noted disconnect between buyers and sellers. The mechanism may signal to buyers that market risk can be managed without contracting, knowing that AEMO will ultimately step-in when market fundamentals become tight. This would be damaging to already fragile investor confidence in pursuing future upstream field developments.

Moreover, there is concern that a SoLR without appropriate safeguards may prompt producers to contract their flexible supply-side services with AEMO, which may limit the flexibility they are willing to offer to the market. Flexibility in supply contracts is particularly important to support gas powered generation (**GPG**) and other users with variable running profiles.

### **Competitive Tender & Price Limit**

CS Energy acknowledges that the proposed \$800/GJ price limit for the SoLR contracts is a *limit* and not a target. Nonetheless, the prospect of procuring gas at this high of a price is

alarming, for the costs borne by customers (both residential and large industrial) would be significant and may exceed the Value of Gas Customer Reliability (**VGCR**). Large industrial users, who underpin the Australian economy, would be most adversely impacted by these costs through their inflexible demand requirements.

CS Energy considers the proposed limit to be far too high to justify, particularly when reflecting on historical market conditions. Even amidst the turmoil of the 2022 energy crisis, prices in the Short-Term Trading Market (**STTM**) never breached \$60/GJ. In Victoria's Declared Wholesale Gas Market (**DWGM**), the highest price offered by producers during this time was \$65.25/GJ. As mentioned earlier, despite shadow prices forecasting VoLL, the market never settled at this level. It is important to note that even during the greatest period of stress ever faced by the ECGS to date, prices never reached even 10% of the proposed limit.

The procurement of SoLR services, whilst intended for times of significant market strain, should still reflect the appetite of the market for these services. The process proposed by the AEMC sets the price limit on contracts *before* a gas reliability committee (**GRC**) will be established and given the task of estimating the VGCR to inform the limit.

CS Energy considers that a more appropriate process would be for the GRC to be established first, then the VGCR estimated and that this value should form the limit for SoLR contracts. In the near term, there does not appear to be an immediate threat to the adequacy of gas supply. Moreover, other policy work such as the gas market review contributes to support contracting and the delivery of additional supply to market, further mitigating any threats. This allows ample time for the GRC to be established, and an informed limit to be set before any potential SoLR use.

This methodology addresses the issue of it being fundamentally inefficient to allow services, regardless of the condition of the market, to be procured above the price that users would be willing to pay for access to. This may also help to prevent participants from gaming the mechanism to access returns that are significantly higher than what they would be able to receive from the market.

Whilst a competitive tender process is intended to drive contract prices down, CS Energy highlights that there are instances where competition may not exist for the services being sought. For instance, there may be only one provider within a geographically appropriate location to address the immediate threat. The consult paper also notes that there may be scenarios in which the severity and imminency of the threat does not allow for the tender process to be undertaken.

Nonetheless, CS Energy supports the proposal by the AEMC for a competitive tender process to be run for the SoLR where appropriate. Further, CS Energy supports providing AEMO the flexibility to cancel a tender, should the RSA issue be resolved prior to SoLR action being taken. This provides the signal to market that AEMO's preferred solution is for these threats to be resolved organically by participants.

### **Guiding Principles and Accountability**

CS Energy considers that the guiding principles outlined in the consultation paper are broadly sensible and appropriately designed to limit the potential distortionary effects of the mechanism. In line with the recommendations above, CS Energy proposes amending the draft rule SoLR principles to align with the original proposed principle where "the average amount payable by AEMO for each GJ should not exceed the estimated average VGCR for the location the SoLR reserve has been established for".

CS Energy supports the proposed accountability obligations on AEMO to publish a post-SoLR activation report. This will be a valuable tool for participants to understand the costs associated with the SoLR and to analyse the events that led to the mechanism being triggered, as to avoid them in the future.

CS Energy recommends that the AEMC consider developing a trigger to review the effectiveness of the SoLR based on the frequency that it is used (e.g. if the mechanism is used more than twice in one year). Multiple uses of the SoLR could signal that market participant's understanding of the underlying supply/demand issues has been distorted, participants are withholding services to 'game' the mechanism or that there is fundamental market failure present which will require more rigorous reform.

### **Closing Remarks**

CS Energy commends the commission on the work done thus far across reliability and supply adequacy reforms and looks forward to continued collaboration. If you would like to discuss this submission, please contact Hunter Finlay, Policy Analyst, at [hfinlay@csenergy.com.au](mailto:hfinlay@csenergy.com.au).

Yours sincerely



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Head of Policy and Regulation (Acting)