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Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

By online submission

Dear Ms Collyer,

ECGS Enhancing Reliability and Supply Adequacy Arrangements (GRC0076)

AEMO welcomes the opportunity to respond to the AEMC's draft determination on the east coast gas system (ECGS) Enhancing Reliability and Supply Adequacy Arrangements rule.

Implications of the absence of a system-wide reliability standard

AEMO notes the AEMC's draft determination not to introduce a reliability standard for the ECGS. In the absence of a reliability standard, matters that were proposed to be resolved through the rules are instead now to be addressed through AEMO's procedures, particularly the proposed likelihood and severity assessments underpinning the tiered risk or threat framework. This effectively requires AEMO to define and apply quasi-reliability thresholds through procedural instruments. While the draft determination indicates that establishing a formal reliability standard would be disproportionately complex, AEMO considers that this complexity is not removed under the proposed rules but instead shifted into procedures through the calibration of likelihood and severity assessments.

This shift has important practical consequences. In the absence of a defined benchmark for acceptable reliability outcomes, the implicit tolerance for supply shortfalls is effectively set at zero, with any projected shortfall requiring assessment, classification and reporting. This creates an inherent tension for AEMO in the absence of a reliability standard, requiring AEMO to balance the consequences of acting under uncertainty with the need for sufficient confidence that a shortfall will occur before exercising last-resort intervention tools. While the proposed tiered or threat signalling framework introduces a structured approach to assessing likelihood and severity, it does not fully resolve the absence of an objective reference point against which these assessments are anchored. As a result, key elements of the framework rely on inherently judgement-based determinations, which may reduce transparency and predictability for market participants.

Tiered risk or threat signalling framework

AEMO considers it is appropriate for risk or threat notices to identify the location[1] of a projected shortfall, as this provides important contextual information for market participants. However, AEMO considers the implications of assessing the severity by location[2] as introducing significant complexity for both the

[1] Rule 695(2)(d)
[2] Proposed rule 694B(4)(a)(i)

procedures and modelling. The severity is likely to be dependent on the types, and number, of customers within that location. While this could be modelled, it would be a significant undertaking and would require AEMO to have access to more information than contemplated by the draft rules. The consequences of a shortfall at a given location depend on a range of dynamic and highly localised factors including load composition, storage availability and the ability to re-route or substitute supply. These factors are not consistently observable or quantifiable in a way that would support robust and repeatable severity assessments. Including location as a determinant of severity risks introducing subjectivity and complexity into the framework. In particular, it may lead to similar shortfall volumes being assigned materially different severity classifications based on assumptions about local impacts that cannot be transparently or consistently validated. Further consideration is required on how AEMO is to assess the severity of a gas shortfall, including additional guidance in the proposed rules 694B(2)(b) and (c) which may include limiting the matters that AEMO take into account, and the methodologies used by AEMO, to information that AEMO has access to.

AEMO considers that the drafting of the requirement for a "probabilistic assessment" of likelihood does not clearly reflect the underlying policy intent. As currently framed, the requirement is open to a broad range of interpretations, including approaches that would require a level of modelling sophistication and input granularity beyond what is necessary to support decision-making. In particular, the drafting may be read as implying a statistically robust probabilistic modelling framework, which would introduce significant implementation complexity and cost. Further, key inputs from market participants required to support such an approach are not currently supplied to AEMO. Without clearer articulation of scope, there is a material risk that the requirement drives an overly complex solution that is not proportionate to its intended purpose. AEMO therefore considers it important that the scope and intent of the 'probabilistic assessment' be more clearly defined in the rules, including through refinement of rule 694B(3).

As noted in the draft determination, stakeholders supported a more objective and transparent risk or threat signalling framework, but emphasised the need for independent oversight or clear thresholds to manage AEMO's discretion. AEMO notes that the proposed rules do not establish clear parameters for how the likelihood and severity assessments are to be defined or calibrated. In the absence of such parameters, it may be challenging to develop thresholds that are sufficiently clear and consistent in practice. Given the inherently judgement-based nature of these assessments, clearer guidance in the rules would assist in ensuring that judgement is exercised within understood bounds and applied consistently. This is particularly relevant given the AEMC's suggestion that the probabilistic approach would leverage AEMO's existing modelling capabilities, however, the current ambiguity in the rules makes it unlikely that existing models can be effectively utilised, resulting in an increased implementation time and additional complexity.

Draft rule 697(2)(b) refers to a "relevant threat" in circumstances where AEMO gives a direction without first publishing a risk or threat notice. AEMO considers this drafting ambiguous and recommends clarification that the rule applies specifically to a tier-3 threat. Explicitly referencing a tier-3 threat would improve transparency and ensure consistent communication and reporting of high-severity events, particularly where formal notices cannot be issued prior to intervention.

AEMO expects that there will be scenarios in which estimating a single date and time as the "latest practicable time" for an adequate industry response may be difficult or ill-suited to the nature of the risk or threat. The timing of intervention also depends on the relevant response mechanism available to AEMO to address the risk or threat. In some cases, the trigger for intervention may be contingent on an event or condition occurring within a broader time window, rather than at a specific point in time (for example, storage inventory falling

below a defined risk threshold). AEMO recommends that rule 696A provide sufficient flexibility to accommodate condition-based or event-driven triggers. Where such triggers are applied, the rules could be expanded to require AEMO, where practicable, to publish supporting information that explains the underlying drivers of the identified risk or threat. This may include relevant assumptions, observed conditions or qualitative assessments using the information available at the time to assist market participants in understanding the trigger and its implications.

AEMO considers it would be beneficial for the principles in rule 699N to explicitly recognise engagement with relevant jurisdictions, including having regard to engagement undertaken pursuant to rule 700(2A). Given the principles in rule 699N are applied when determining whether to exercise the direction function, explicit recognition would ensure appropriate weight is given to jurisdictional engagement as part of that determination.

AEMO also notes a few minor drafting matters that would benefit from clarification:

- There is drafting inconsistency in the definition of a *supply shortfall* which refers to a shortfall in supply "in all or part of the east coast gas system", whereas the corresponding references to demand does not include a similar locational qualifier.
- The National Gas Law already provides that a reference to the east coast gas system includes a reference to part of the east coast gas system. In this context, consideration should be given to whether the words 'all or part' are required in the Rules.

Enhancements to the GSOO and VGPR

AEMO has significant concerns regarding the requirement to assess and report on the likelihood of supply shortfalls as part of the GSOO and VGPR. Current gas demand forecasting relies on a limited set of historical weather years (approximately 14 years), which is not statistically sufficient to support robust probabilistic conclusions about the likelihood of future weather-driven outcomes. This limitation is further compounded by structural changes in demand and the increasing influence of climate change, which call into question the representativeness of historical weather patterns. AEMO considers that the existing GSOO framework already provides decision-useful information on potential supply shortfalls. In particular, the GSOO presents shortfalls based on clearly defined scenarios and underlying assumptions, enabling stakeholders to understand the conditions under which risks may emerge. AEMO considers that greater emphasis should be placed on the qualitative, scenario-based information, to identify when and why a shortfall may occur under specific assumptions, rather than seeking to express these outcomes as probabilistic likelihoods. A meaningful likelihood assessment would require probabilistic information on supply-side conditions, which is not currently available. This would necessitate additional data submissions from gas producers and facility operators, such as probabilistic supply forecasts (for example, POE-based supply ranges), which would represent a material expansion of existing information requirements.

AEMO considers that aspects of draft rule 135KAA(2) require amendment to avoid unintended consequences:

- The requirement that forecasts be "as accurate as possible" is unnecessarily prescriptive and not aligned with existing NEL/NER frameworks, which emphasise central (most likely) scenarios and transparency of assumptions. AEMO recommends removing this wording.
- AEMO also recommends deleting the phrase "and prepared in an unbiased manner" from clause 135KAA(2)(a). This wording may imply that AEMO's forecasts are otherwise susceptible to bias and is

unnecessary in the context of AEMO's statutory role. AEMO instead suggests introducing a qualifier such as "having regard to the following principles, to the extent practicable" to appropriately recognise practical and informational constraints.

- clause 135KAA(2)(c) places additional emphasis on "effective consultation" despite the methodology already being subject to consultation requirements equivalent to a category of Procedures. This additional drafting appears redundant and may imply that standard AEMO procedure consultations are insufficient. AEMO recommends removing this clause to avoid duplication.

Gas Reliability Committee and market settings review

AEMO does not support the AEMC's proposal for AEMO to conduct the 2026 STTM market settings review. Running a review under governance arrangements that the draft rule itself seeks to replace is likely to deliver limited value, produce outcomes that are quickly superseded, and create inconsistency with the new framework. It would also require AEMO to undertake a process that the AEMC has already determined is not the preferred long-term model, offering little benefit to stakeholders or the broader reform program.

As noted in the 2022 Gas Market Parameter Review, AEMO considered it appropriate for the subsequent review to begin with a dedicated consultation on the market parameter assessment methodology. A condensed process led by the new Gas Reliability Committee would be far preferable to AEMO undertaking the "light touch" review envisaged in the AEMC's draft determination. If AEMO were required to review the price settings, it would be reasonable, and necessary, for that review to be conducted thoroughly. This could lead AEMO to submit rule changes to adjust the price settings, putting the AEMC in the position of having to assess those settings regardless.

A more effective and coherent approach would be to establish a transitional, out-of-cycle Gas Reliability Committee to undertake an initial review under the new governance structure, one that could be used to further inform the next settings review. This would avoid duplicative effort, ensure early alignment with the intended framework, and provide stakeholders with confidence that market settings from 2026 onward are shaped by the governance model the AEMC considers best practice.

Stage 2 implementation timeline and interactions with other stage 2 reforms

Having considered the draft ECGS PASA rules and the draft Enhancing RSA arrangements rules in parallel, AEMO considers that the proposed tiered risk or threat signalling framework is highly dependent on the outputs of the ST and MT PASA. In particular, the intended functionality of the risk or threat framework relies on PASA outputs to inform the identification, assessment and communication of emerging supply risks. As a result, the risk or threat signalling framework cannot operate as intended until the ECGS PASA is in place.

In the absence of PASA outputs, implementation of the tiered risk or threat signalling framework would necessarily rely on AEMO's judgement and qualitative assessments. One possible alternative would be a staged implementation approach, whereby the tiered framework initially operates on a judgement-based basis, with full functionality only commencing once PASA outputs are available.

AEMO considers that the proposed implementation timeframe for Stage 2 reforms will be sensitive to the final scope and complexity of the probabilistic and severity assessment requirements. Broader or less clearly bounded requirements would increase system build and further constrain delivery timeframes.

In relation to the ECGS PASA, AEMO considers that the proposed commencement date of 3 May 2027 is not at all feasible. Implementation of the ECGS PASA will involve significant system development, integration and testing. Based on AEMO's current assessment, the earliest feasible go-live date for the ECGS PASA would be

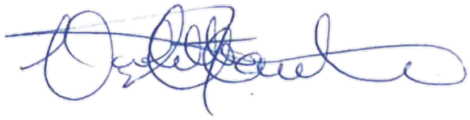
prior to Winter 2028 – this assumes the rules are updated in a way to provide a greater level of clarity and guidance that allows AEMO to leverage existing modelling capabilities and minimise costs.

AEMO notes the following ECGS PASA-related considerations relevant to Stage 2 implementation:

- AEMO considers that STTM and DWGM requirements for submitting and updating information should be aligned to the extent possible. Currently the draft DWGM rules require submission of demand forecasts 7 days ahead with subsequent updates aligned to the provisional schedules, while the STTM requires submission of price taker bids 7 days ahead and updates as required. Greater alignment would support operational consistency, with demand forecasts/price taker bids being submitted 7 days ahead and updates required with changes in forecasts.
- AEMO considers that the mandatory 7-day submission requirement in rule 410 should apply to price taker bids only, consistent with the intended requirements for the ST PASA, and not extend to ex-ante offers or bids.
- AEMO notes that current practices for submitting data to the Gas Bulletin Board may result in reported transmission capacity overstating actual available capacity. AEMO suggests amending the definition of *daily capacity* to explicitly require consideration of operational and physical limitations.
- AEMO considers that additional *detailed facility information* on storage capabilities would improve PASA outcomes, particularly where injection and withdrawal capacity varies depending on storage levels (e.g. near full or near empty conditions).
- AEMO reiterates its previous position that actual beginning of day linepack data for each pipeline segment on the previous day is required for validation purposes. This information would support the identification of forecasting errors and systemic patterns requiring further consideration.

AEMO looks forward to continuing work with the AEMC on the Stage 2 RSA rule changes. Should you wish to discuss any aspects of this submission please contact Paddy Costigan, Group Manager, Gas Reform at Paddy.Costigan@aemo.com.au.

Yours sincerely,



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