

Supporting reliability and supply adequacy in the East Coast Gas System

The Australian Energy Market Commission (Commission) has made new rules to help industry participants and the Australian Energy Market Operator (AEMO) better identify and respond to gas supply risks and threats in the East Coast Gas System (ECGS). The rules also clarify when and how AEMO can step in as a last resort.

We have made a package of rules to support reliability and supply adequacy in the ECGS

A reliable ECGS will continue to be essential to manage Australia's energy transition. It is important for industrial and commercial entities that are still natural gas dependent, as well as residents with gas hot water, cooking and heating. In addition, gas for electricity generation is now critical to maintaining the reliable and secure operation of the national electricity market.

For these reasons, the ECGS will need to maintain high levels of reliability during the energy transition while also managing the evolving role of natural gas as the sector transforms.

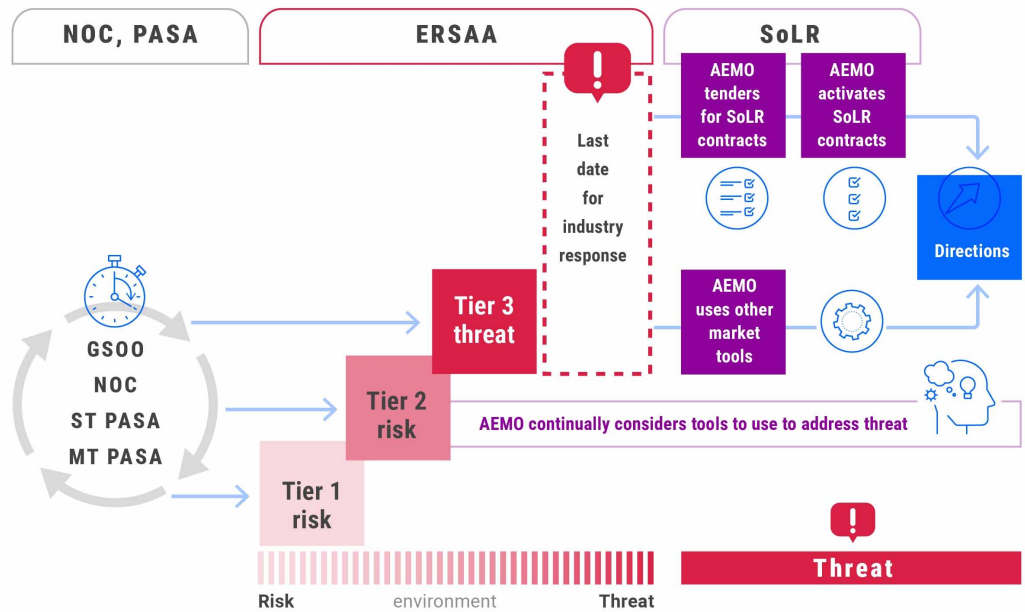
To address this, the Commission has made three more preferable final rules in response to rule change requests from Energy Senior Officials and the Honourable Lily D'Ambrosio MP, Victorian Minister for Energy and Resources. The three rules amend the National Gas Rules (NGR) to support reliability and supply adequacy in the ECGS:

- [Projected Assessment of System Adequacy](#) (PASA)
- [Enhancing reliability and supply adequacy arrangements](#) (ERSAA)
- [Supplier of last resort mechanism](#) (SoLR).

Together, these three rule changes:

- introduce two PASA forecasts, which will include an assessment of the supply-demand balance to empower participants to make better decisions around their supply and demand for gas, and facility maintenance
- require AEMO to identify and assess risks or threats to reliability and supply adequacy, based on probability and severity, using the information from PASA on supply shortfalls
- require AEMO to communicate those risks or threat tiers so that the market can respond in an efficient and proportionate way
- provide guardrails for how AEMO can use the ECGS trading function in the National Gas Law (NGL) as a last resort if the market does not respond to a threat that has been identified and communicated by AEMO.

This framework provides a single, systematic arrangement that AEMO and industry participants can use to support and manage reliability and supply adequacy across the ECGS. Importantly, industry participants' response remains the primary tool for addressing supply and demand gaps. The package is designed to stimulate responses from industry participants to reduce the need for AEMO intervention, but when required, guide when and how intervention will occur. The relationships between the rules and the previously made notice of closure (NOC) rule are illustrated in the figure below.



The final PASA rule will improve information through the two new forecasts

We have made a final rule that introduces short-term (ST) and medium-term (MT) PASA into the NGR. The new PASA arrangements will provide industry participants with better information on the demand and supply balance across the ECGS. It will increase transparency in, and improve the operation of, the ECGS by empowering:

- participants to make better decisions around their supply and demand for gas, and facility maintenance
- AEMO to make better-informed decisions about responding to any risks or threats to reliability and supply adequacy in the ECGS.

ST and MT PASA will improve information over seven-day and 12-month horizons, respectively

The final rule introduces a PASA framework comprising two forecasts that bridge the gap between the present and the Gas Statement of Opportunities (GSOO). AEMO will publish on its website:

- ST PASA with a daily publication frequency and seven-day horizon
- MT PASA with a weekly publication frequency and 12-month horizon.

Each PASA will include forecasts of demand, supply, and infrastructure availability for each region in the ECGS as determined by AEMO, according to the ECGS Procedures (with the same defined regions used for both ST and MT PASA).

The ST PASA would also include any identified threats to reliability and supply adequacy over the next week.

The new forecasts will be built on existing, and some new, information

The projected assessment will be based on information collected from participants and/or modelled by AEMO on market, non-market, storage, liquefied natural gas (LNG) export and gas-powered generator (GPG) demand, and supply and infrastructure availability. Most of this information is already collected through the Bulletin Board rules or through provisions introduced in the stage 1 reliability and supply adequacy (RSA) reform package.

However, the existing information needs to be supplemented to enable AEMO to determine ST and MT PASA consistent with the PASA objective and provide useful, fit for purpose information to industry participants. The new or modified information disclosure requirements are set out in the NGR.

AEMO's implementation costs would be recovered from participant fees

The final rule will be taken to be a 'major gas project', which entitles AEMO to recover the costs incurred in the implementation of the rule through participant fees. This aligns with the widespread benefits arising from PASA of improved visibility into gas reliability and supply adequacy. There are also further benefits from implementing the ERSAA and SoLR rules so that industry participants and AEMO can work together to support a more reliable ECGS that benefits gas users.

The final ERSAA rule will enhance reliability and supply adequacy arrangements

The final ERSAA rules introduce new arrangements to support efficient responses from market participants and AEMO to reliability and supply adequacy risks or threats.

The rules introduce a tiered risk or threat signalling framework

The final rule establishes a framework for AEMO to assess, classify and communicate risks or threats to the reliability and supply adequacy of the ECGS:

- The framework will include three tiers for classifying risks or threats. AEMO is required to classify risks informed by its assessment of the likelihood and severity of a supply shortfall that has been forecast through ST PASA.
- With this information, participants will be better able to respond to forecast supply shortfalls in a timely and proportionate manner, reducing the need for AEMO interventions.
- Alongside any tier 3 threat notice, AEMO will need to specify the time after which it may need to consider intervening if the threat is not addressed by the market.

We are improving the governance arrangements for the review of the market settings

Under the final rule, the market settings for the Victorian declared wholesale gas market (DWGM) and short term trading market (STTM) will be reviewed by a gas reliability committee (GRC) convened by the Commission. This approach will enable broad stakeholder representation in reviewing the settings, while also providing strong governance from the Commission.

The GRC's first review will be completed in 2030, with recommended market settings to take effect in 2032. Under the final rule, AEMO will still be required to conduct the review of STTM market settings currently scheduled for the second half of 2026.

AEMO will enhance the GSOO and VGPR

The final rule also includes specific enhancements for the GSOO and Victorian gas planning report (VGPR) to support efficient investment and planning decisions in the ECGS:

- AEMO will be required to consult on and publish its gas supply adequacy assessment (GSAA) methodology to increase transparency and confidence among stakeholders.
- AEMO will report identified risks of gas supply shortfalls in the GSOO and VGPR.
- Where reasonably practical, the GSOO would also include a regional breakdown of the GSAA. AEMO can determine the appropriate regional groupings.

The final SoLR rule guides how AEMO can intervene in the ECGS

The final rule creates a SoLR mechanism to guide AEMO on how it can use the ECGS trading function in the NGL established by energy ministers in 2023.

The final rule provides greater clarity and certainty for AEMO, industry participants, governments, and consumers compared to the current trading function arrangements. It includes a set of arrangements and specifies:

- the respective roles of industry participants and AEMO
- that the SoLR mechanism sits towards the end of the hierarchy of tools available to AEMO
- how this function would be operated in practice by AEMO
- associated information transparency and accountability arrangements.

The final rule enables improved reliability outcomes by providing AEMO with guidance and guardrails for use of the trading function. It promotes efficiency by clarifying that industry participants are primarily responsible for managing reliability risks and threats.

Key features of the final SoLR rule

The key features of the rule are that it:

- Enables AEMO to procure supply-side and demand-side services to address threats to gas reliability and supply adequacy in the ECGS.
- Requires AEMO to use competitive tendering to seek out potential demand and supply responses to identified reliability threats.
- Includes key design features to guide AEMO and industry participants on its use, including the principles AEMO must have regard to when establishing a SoLR service contract and activating, or using, a SoLR service contract.
- Provides AEMO with a dual cost constraint for its expenditure on SoLR service contracts (escalated by Consumer Price Index over time). Specifically, AEMO is guided by:
 - an upper price limit for each SoLR service contract of \$40 per gigajoule
 - a total annual aggregate expenditure limit on SoLR service contracts of \$50 million.
- Establishes clear preconditions and triggers that must be met before the SoLR mechanism can be used by leveraging the improved demand-supply outlook information from PASA and the tiered risk or threat signalling framework created by ERSAA.
- Sets out how the SoLR mechanism operates once a tier 3 threat to reliability has been identified and communicated under the tiered risk or threat signalling framework.
- Implements a demand-based cost recovery and proceeds distribution process that supports efficient market outcomes without imposing undue complexities and costs.
- Enhances transparency and accountability to industry participants, including that AEMO must conclude a review of the operation of the SoLR mechanism 18 months after its first use. This review is to include public consultation.

The rules will be implemented progressively to be operational by winter 2028

The final rules specify key dates for implementing the new framework, acknowledging that the system changes needed for AEMO to produce PASA are significant.

Table 1: The rules will be implemented progressively

DATE	MILESTONE	RSA RULE
16 July 2026	Transitional rules commence.	PASA, ERSAA, SoLR
5 November 2026	After the completion of the 2026 market settings review, AEMO is no longer required to conduct those reviews.	ERSAA
1 April 2027	AEMO's ECGS and BB procedure updates, including: <ul style="list-style-type: none">• Details of PASA-related information disclosure requirements• Details of the SoLR mechanism• Risk or threat signalling framework From this date AEMO will use its existing processes to operate the risk or threat signalling framework, until the new PASA is fully operational.	PASA, ERSAA, SoLR
1 October 2027	AEMO publishes the GSAA methodology.	ERSAA
6 April 2028	New information disclosure obligations commence for industry participants, and AEMO commences a PASA trial.	PASA
8 June 2028	AEMO formally commences PASA. AEMO to use PASA outputs to inform its assessment of risks or threats.	PASA

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