

9 September 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission
Sydney South NSW 1235

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Dear Ms Collyer

Draft Report - Review of the Gas Supply Guarantee

Thank you for the opportunity to provide a submission to the Australian Energy Market Commission (Commission) Review of the Gas Supply Guarantee Draft Report (Draft Report).

The Australian Energy Market Operator (AEMO) supports the recommendation made by the Commission and notes that Draft Report conclusions are broadly aligned with positions stated in AEMO's response to the Consultation Paper. This submission is therefore focussed on addressing feedback specifically requested by the Commission.

Specifically, this submission focusses on amendments to refine the gas supply shortfall definition under, and to clarify operation of, the Gas Supply Guarantee Guideline. Further, this submission provides further information regarding the operation of the South East Australia Gas Maintenance Workshop as requested by the Draft Report.

Should you have any questions, please contact Kevin Ly, Group Manager Regulation at kevin.ly@aemo.com.au.

Yours sincerely



Tony Chappel
Chief External Affairs Officer
External Affairs

Attachments:

AEMO Submission to Gas Supply Guarantee (GSG) Review Draft Report (EMO0041)

ATTACHMENT 1: AEMO SUBMISSION TO GAS SUPPLY GUARANTEE (GSG) REVIEW DRAFT REPORT (EMO0041)

Draft Recommendation

AEMO supports the draft recommendation set out in the Draft Report, that is that the term of the Gas Supply Guarantee (GSG) should be extended to March 2026, with a review of the ongoing need for the measure to be performed prior to the conclusion of the term. As previously noted in AEMO's submission to the Consultation Paper, there is uncertainty regarding the future outlook for gas markets and the role of gas powered generation (GPG) in the NEM, meaning that retention of the GSG is a safe approach.

AEMO notes that since its submission in April there have been significant gas events and movements in the gas supply outlook, and that some of these events have triggered consideration of the GSG. These events have triggered the application of RERT and gas market measures, such as the escalation of gas supply concerns due to rapid decreases in Iona underground gas storage (UGS) inventory and an unplanned outage impacting Longford Gas Plant production.

While a GSG Assessment Conference or Industry Conference is still yet to be triggered, situations in the NEM have instigated NEM Operations and Gas Operations collaboration and investigation into gas supply issues impacting GPG, indicating an ongoing future need for the GSG. As the NEM becomes more dependent on GPG with the retirement of coal-fired generators, there is potential for the GSG process being required to inform and support NEM functions more frequently in response to immediate term gas supply issues.

GSG Guideline amendments

Definition of 'gas supply shortfall'

To ensure simplicity and clarity, but retain the same practical application of the GSG Guidelines, AEMO proposes to amend the definition of Gas Supply Shortfall by removing the reference to 'peak NEM demand period' and clarifying that it is for NEM reliability requirements. Specifically, AEMO proposes to use the following definition:

"A shortfall in gas supply available to meet the fuel requirements for gas generators to operate at the capacity required to meet supply reliability in the NEM".

This makes clear that the GSG applies to NEM supply reliability needs and removes the limiting reference to 'peak NEM demand period'.

The use of 'peak NEM demand period' does not sufficiently cover the circumstances when or how the NEM experiences reliability issues. That is reliability issues are:

- not based on NEM-wide demand, instead they arise for a region based on a lack of reserve condition, or due to network capability constraints;

- not driven by demand alone, instead they issues arise out of both NEM supply and demand (not necessarily peak demand) conditions.

AEMO notes that that the definition proposed above differs from that proposed in its previous submission. That is, that the initially proposed definition included reference to the NEM conditions in which a gas supply shortfall would arise. AEMO reconsidered the proposed definition as the conditions under which a gas supply shortfall could arise are not solely based on NEM conditions, that is, gas supply and demand conditions are also relevant. From a simplicity and flexibility perspective, it is not feasible to cover all conditions within the definition of gas supply shortfall; and the GSG Guidelines already set out the conditions under which a Gas Supply Shortfall could occur.

Application to NEM and gas scenarios

The definition of gas supply shortfall should be sufficiently broad to capture scenarios contemplated by the GSG, namely that the NEM may require a greater level of generation than GPG operators have indicated and therefore secured supply for; or that gas supply is limited and GPG operators must reduce generation. It is acknowledged that GPG operators should have primary responsibility for managing fuel availability for plant however, the GSG provides a mechanism for matters beyond that control.

AEMO may call for a market response on identifying a LOR condition meaning that AEMO requires additional generation capacity, exceeding what GPG operators have indicated via ST PASA or pre-dispatch, based on their commercial requirements, and therefore secured gas for. Where there is insufficient fuel available for GPG to meet higher generation requirements, a GSG process may be considered as a measure to secure additional supply for GPG.

Another scenario in which the GSG could be used to secure gas supply for NEM purposes is where a GPG operator has had to reduce available generation capacity indicated via ST PASA or pre-dispatch processes due to a reduction in availability of gas supply to that plant. Where this reduction in gas supply impacts the ability for a GPG operators to meet NEM generation requirements, similar to the first scenario, a GSG process may be considered as a measure to secure supply for this GPG.

Other GSG Guidelines changes

If AEMO amends the definition of Gas Supply Shortfall in the GSG Guidelines, this amendment would be supported by other minor GSG Guidelines amendments. These would clarify the conditions in which a gas supply shortfall could arise; the sources that might inform AEMO's identification of a gas supply shortfall; and how this relates to the overall GSG process.

AEMO will also consider minor amendments to clarify that triggering a GSG Assessment Conference or Industry Conference process would not be considered for most Lack of Reserve (LOR) conditions, and would be subject to an AEMO determination that additional gas supply would help to address this issue.

South East Australia Gas Maintenance Workshop

As described in AEMO's submission to the Consultation Paper, the South East Australia Gas Maintenance Workshop (SEAGMW) is established by AEMO for facility operators (Producers, Storage Providers and transmission pipeline operators) that supply gas to, or transport gas in, South East Australia. The purpose of the SEAGMW is to assist AEMO to meet its obligations to coordinate all maintenance planned by DWGM facility operators under National Gas Rules (NGR) clause 326 and the Wholesale Market Maintenance Planning Procedures (Victoria).

Participation in the workshop has been expanded on a voluntary basis to also include some non-DWGM facility operators to assist AEMO assess and make decisions about any conflicting maintenance. A key driver for expanded participation was due to the need to consider supply to the Sydney and Adelaide STTMs. That is, to ensure that any maintenance approved in Victoria would not lead to a Contingency Gas or curtailment event in New South Wales or South Australia.

AEMO agrees with the AEMC that there is a relationship between voluntary participation in the SEAGMW and the GSG, and that the SEAGMW complements the outcomes of the GSG. That is, these are both mechanisms which rely on voluntary participation by east coast facility operators; and both measures address gas supply risk. This maintenance planning process reduces the risk of identifying a gas supply shortfall through the GSG which could then impact NEM GPG.

However, there are multiple differences. The SEAGMW is a preventative measure, with its objective being to identify conflicts in the proposed medium term maintenance schedules of facility operators. The SEAGMW assists AEMO to assess and make decisions to mitigate the risk of gas supply limitations arising from maintenance activities, which would impact not only GPG, but all gas customers. Subsequent to the SEAGMW, each facility operator publishes updates to their maintenance outlook to the Gas Bulletin Board (GGB) in accordance with medium term capacity reporting obligations under NGR 181.

The GSG is a detective and corrective measure to monitor east coast gas supply and NEM conditions in the short term. It facilitates a process for AEMO to work with facility operators and GPG operators that are signatories to the GSG process, to resolve imminent gas limitations impacting the ability of NEM GPG to operate as required for reliability purposes. Monitoring activities performed under the GSG are not directly informed by the outputs of the SEAGMW, rather the planned maintenance is a factor that impacts the gas supply outlook.

Value to participants

The value of the SEAGMW to east coast gas facility operators, market participants including GPG operators, major industrial and other market customers, is to enable AEMO to independently assess and proactively identify maintenance schedule conflicts. Such conflicts could result in a facility operator inadvertently contributing to a gas supply risk that impacts market participants including GPG operators.

In the absence of extending the SEAGMW to participants outside of the DWGM, outage information provided by facility operators to AEMO to carry out assessments of potential conflicts would still be published by facility operators on the GBB. Under these circumstances these participants would need to use GBB information to identify and resolve conflicts without AEMO's involvement. The benefits of AEMO managing the process are that it:

- shifts the onus of proactive oversight by pipeline operators and shippers to AEMO;
- establishes an independent arbiter for any disagreement between participants;
- mitigates the potential for perceived power imbalances that could arise between larger and smaller participants; and
- facilitates assessment against any major NEM outages that could compound the impact of a gas supply outage, e.g. Victoria to South Australia interconnector outage coinciding with an Iona UGS outage.

Importantly, the inclusion of non-DWGM facility operators in the SEAGMW on a voluntary basis, was implemented from August 2017 following the creation of the GSG in March 2017 and with the encouragement of gas shippers. This arose out of gas supply issues and near misses caused by maintenance conflicts and an increased focus on the importance of GPG following the closure of coal fired power stations in South Australia and the Hazelwood Power Station in Victoria. It is AEMO's understanding that participants prefer AEMO managing this process.

Acknowledging the SEAGMW

AEMO has recently updated its website to include information on the purpose of the workshop, the obligatory and voluntary nature of participation, and the potential for the SEAGMW to reduce the likelihood of needing to call on a measure such as the GSG¹. Further, AEMO will clarify wording in the 2021-22 Summer readiness report to ensure a clear description of the measures and the objectives in managing gas supply risks and will draw a clearer distinction between the purpose of the SEAGMW and that of the GSG.

Competition impacts

AEMO has measures in place to mitigate the risk of SEAGMW activities leading to competition concerns. For example, AEMO is the only recipient of maintenance schedules and other information provided by SEAGMW participants, that is not already publicly available on the GBB. Disclosure of any information to participants is only on an exception basis, and only to the extent required to resolve conflicts identified through AEMO analysis of maintenance schedules.

Further, all attendees agree to comply with the SEAGMW competition law protocol at all times. Also, once any changes to maintenance schedules are finalised through the SEAGMW, facility operators publish this information on the GBB. At this point the updated maintenance information becomes publicly available.

¹ Refer: <https://www.aemo.com.au/energy-systems/gas/declared-wholesale-gas-market-dwgm/transmission-system-operations>.