APA submission

Review of the Gas Supply Guarantee

Draft Report

9 September 2021

Australian Pipeline Limited ACN 091 344 704
Level 25, 580 George Street, Sydney NSW 2000
PO Box R41, Royal Exchange NSW 1225
P: +61 2 9693 0000 | F: +61 2 9693 0093
APA Group | apa.com.au

Ms Daniela Moraes
Senior Advisor
Australian Energy Market Commission
GPO Box 2603

Lodged online

9 September 2021

RE: APA Submission to Review of the Gas Supply Guarantee Draft Report

Dear Ms Moraes,

Thank you for the opportunity to comment on the AEMC's Review of the Gas Supply Guarantee (GSG) Draft Report (Draft Report). We appreciate the AEMC's consultative approach when undertaking the review.

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. Through a diverse portfolio of assets, we provide energy to customers in every state and territory on mainland Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, and over $750 million in renewable generation.

Recent impairments of key energy infrastructure at Callide, Yallourn and Longford have demonstrated that existing market and regulatory arrangements are effective at addressing any gas demand shocks and shortfalls that arise across the National Energy Market. These events have transpired without triggering the GSG, substantiating APA's view that the market has sufficiently evolved and that the GSG may no longer be required.

Should the AEMC maintain its current view that continuation of the GSG is necessary, APA supports the AEMC's view that the GSG remain a non-binding commitment with minimal changes to existing arrangements.

If you wish to discuss our submission in further detail, please contact APA's Markets Manager, Beck Mason, on 07 3512 5854 or marketsmanager@apa.com.au.

Regards,

John Jamieson
General Manager Market Services

1 Submission

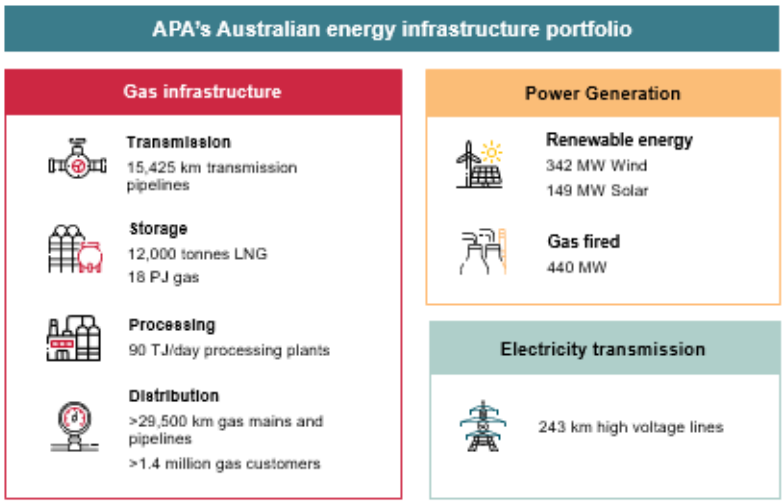
Key points

- Gas infrastructure plays a critical role in helping maintain system security and stability across the NEM.
- Recent impairments of key energy infrastructure at Callide, Yallourn and Longford have demonstrated that existing market and regulatory arrangements are effective at addressing any gas demand shocks and shortfalls that arise.
- APA appreciates AEMC has reached the view that the GSG be retained for another 3 years. In that context, APA supports the AEMC's view that the GSG remain a non-binding commitment with minimal changes to existing arrangements.
- We do not however, consider that AEMO's discretion to declare a *gas supply shortfall* should be enhanced or arrangements for coordinating maintenance activities introduced.

APA has 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain networks connecting 1.4 million Australian homes and businesses to the benefits of natural gas. And we own or have interests in gas storage facilities, gas-fired power stations.

Our investments also include over $750 million in renewable generation, while our high voltage electricity transmission connects Victoria with South Australia and New South Wales with Queensland.

Figure 1



APA is supporting the transition to a lower carbon future. Our ambition is to achieve net zero operations emissions by 2050. Through our Pathfinder Program, we are investigating how hydrogen and other technologies such as batteries and microgrids, can support a lower carbon future.

As a leading energy infrastructure business, APA leverages off its interconnected facilities and diverse portfolio of energy infrastructure to be nimble, delivering energy to customers when they require it and on occasions at maximum capacity within safe operating limits. This 'understated role' as recently referred to in an Australian

Financial Review article occurs behind the scenes, however is evidence of a functioning competitive market delivering on the needs of customers. This submission outlines recent situations when this role has come to the fore and APA's views on the Gas Supply Guarantee's role as a safe guard mechanism to manage peak gas demand shocks for GPG.

1.1 Existing arrangements are effective in supporting the NEM

The National Electricity Market is going through a period of fundamental change, with large volumes of Variable Renewable Energy (VRE) displacing aging thermal generation, mostly coal power stations, at great speed. This transition is not without its challenges.

The GSG was established in 2017 following peak electricity demand and gas supply limitations to gas fired generation in South Australia. This coincided with a period of significant structural shift in the East Coast Gas markets, which has since seen the introduction of new products and services, market platforms, transparency and regulatory measures as well as supply commitments and agreements.

APA's commitments if the GSG was triggered as a pipeline and storage facility operator include:

- facilitating interruptible agreements for shipping additional gas supply;
- coordinating where possible additional transfer and delivery of gas between pipelines;
- transporting and making available where possible, additional delivery of gas to gas generators; and
- making additional gas supply available to Gas Generators through facilitated markets or contractual arrangements during peak NEM demand periods.

Since its introduction the GSG has not been triggered. Recent experience has demonstrated that existing market and regulatory arrangements are effective at ensuring gas is made available when and where it is needed.

1.1.1 Greater flexibility in market arrangements

For many reasons, gas shippers are increasingly contracting on shorter timeframes. APA has introduced a suite of short-term products that provide shippers with much greater flexibility in moving their gas around Australia. These products, which are available via a streamlined transaction notice mechanism, include loan products and access to firm pipeline and compression capacity on a short term, day ahead or within day basis.

Since 2018, a significant number of customers have signed up to these arrangements providing an increased population of potential facilitators of short-term gas transportation between Queensland and southern markets.

In addition, market responses including the Day Ahead Auction compulsory freeing up of contracted capacity increasing liquidity for market participants to respond to gas demand movements, enhanced planning and forecasting of East Coast supply and demand and a more stringent focus on predicting supply shortfalls, has meant many issues have been averted before materialising.

1.1.2 Supplying GPG when needed

Recent events in Queensland and Victoria have also demonstrated the flexibility in gas supply for GPG and security offered by GPG in the NEM:

- On 25 May 2021a failure of one of the generation units at Callide Power Station in Queensland caused 477,000 customers to lose power.
- In mid-June 2021, Yallourn Power Station in Victoria reduced electricity generation to approximately 20% capacity due to the threat of floodwater from the Morwell River. This was the second time Yallourn experienced a significant flooding event, with the Power Station shutting in 2012 when floodwaters entered the adjoining mine.

Following both these recent events, GPG stepped up to help provide crucial electricity generation in both Queensland and Victoria. GPG doubled its output while not increasing overall emissions. The ability of gas turbines to quickly ramp up and provide long term dispatchable generation shows they will be a critical part of the energy system for many years to come.

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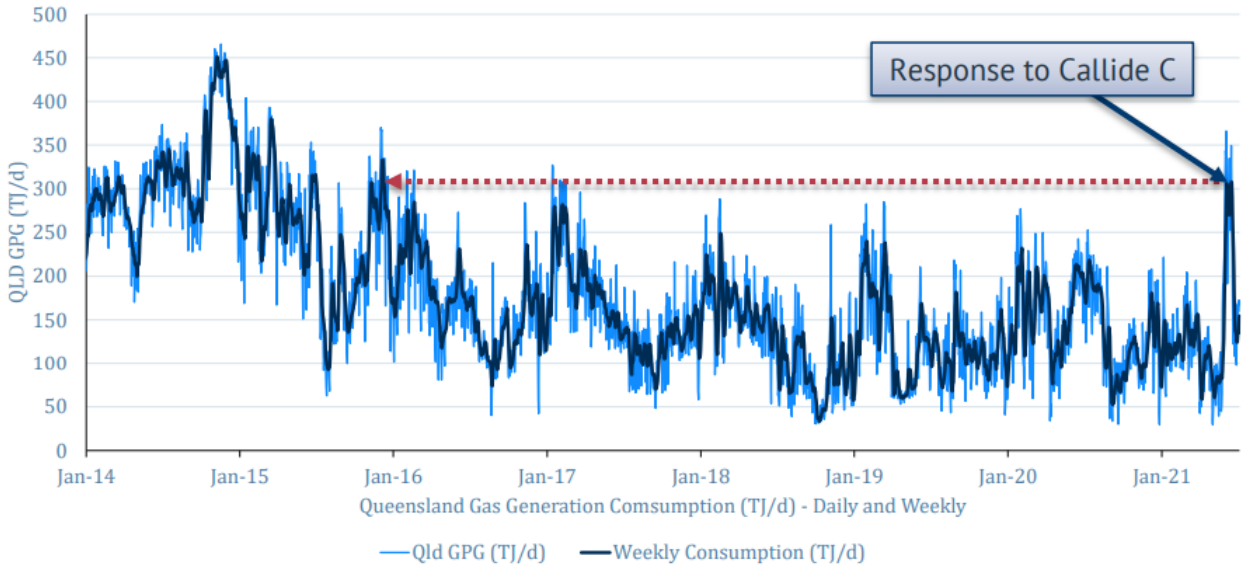

Figure 2: Highest weekly consumption of gas at the Queensland gas generators (308TJ/d) since the 2015 "Ramp Gas" period[1]

APA supported additional gas flows to Queensland's GPG post the Callide through a coordinated approach across field operations, engineering, control room and commercial operations to operate above standing capacity by ~20TJ/d on the Roma Brisbane Pipeline (RBP). This was undertaken at short notice to facilitate maximum flows to customers, deliver on customer expectations to operate within safe parameters and manage the operational stability of the east coast grid to support higher demand.

Overall, the fact that the GSG was not required during these large NEM market disruptions and GPG peak demand periods points to GPGs, suppliers and transportation providers having the appropriate commercial arrangements in place and responding within a competitive market to meet demand requirements.

1.1.3 The market responded following reduced output from Longford

In mid-July 2021, the Longford gas plant in Victoria suffered a reduction in production due to technical problems, significantly reducing the amount of gas being supplied to the Victorian market.

In response, third party shippers and transporters worked together to ensure sufficient gas was supplied to Victoria. APA utilised its substantial gas inventory position ('linepack') on the Moomba to Sydney Pipeline (MSP) to support shippers supply through this event. Further capacity was available during this event should the market have required it.

[1] The Edge – Energy Market Update, 5 July 2021

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APA's Dandenong Liquid Natural Gas (LNG) facility also played an important role in supporting the VTS by injecting LNG at the Dandenong city gate, directly into the Melbourne metro area. The Dandenong LNG Facility was also available to inject additional volumes of gas should the market have required it.

Due to their ability to compress and store gas, pipelines are ideally placed to help with energy supplies either during extreme weather or in the event of supply failure. In many respects they are just like big batteries capable of being turned on in minutes, and able to be sustained for days, offering a unique ability to deliver energy security when it's needed most. This was shown to be the case following the supply disruption at Longford.

1.2 Proposals to amend the GSG

In the Draft Report, the AEMC proposed to extend the GSG for three years to March 2026. While APA considers that gas markets have evolved and therefore the GSG is no longer necessary, we recognise the AEMC may form a different view as the energy market transitions to accommodate VRE and ensure a stable power system. In this context, APA supports the AEMCs recommendation that the GSG should remain as a non-binding and voluntary market led response facilitated by AEMO triggered.

We however, propose that retaining the GSG shouldn't supplant ensuring that there is suitable market foundations and signals for GPG to operate sustainably to meet energy supply or energy system stability and maintain suitable gas supply arrangements during this transition. APA's understanding is that the GSG was developed to coordinate a response to unexpected localised peak demand or supply interruptions over and above existing gas supply arrangements and not be used as the sole mechanism to source gas to meet peak requirements of Gas Generators[2]. This should remain the key focus of the GSG if extended.

In addition to this overarching comment, we do provide comment on two of the potential improvements identified by the AEMC in the Draft Report in further detail below.

1.2.1 Defining a gas supply shortfall

The Draft Report seeks views on whether the current definition of *gas supply shortfall* should be linked to a broader definition of electricity demand in the NEM. AEMO suggested the following definition:

> A shortfall in gas supply available to meet the fuel requirements for Gas Generators to operate at the capacity required during forecast low reserve condition (LRC), forecast

2 *AEMO, Gas Supply Guarantee Guidelines, 1 April 2020, p3*

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or actual lack of reserve condition (LOR) occurring in the NEM, or to meet electricity demand in part of a NEM region.[3]

It is not clear why a broader definition of a gas supply shortfall is needed given that gas supply shortfall only triggers AEMO to convene an Assessment Conference with industry participants to consider if a shortfall is imminent. AEMO's Gas Supply Guarantee guidelines already allow AEMO to consider regional issues in this assessment. The GSG Guideline[4] (Guidelines) states that:

> AEMO may consider that a Gas Supply Shortfall may occur due to:
>
> i. actual or forecast low reserve or lack of reserve conditions in the NEM, gas supply or demand conditions, low pipeline capacity availability or prevailing market conditions; or
>
> ii. information provided by Gas Generators; or
>
> iii. a request or advice from a Jurisdictional representative

In our view, the reference in the Guidelines document to lack of reserve conditions in the NEM provides AEMO with sufficient discretion to consider localised issues, which is the primary purpose for the GSG's introduction in 2017

In our view, any consideration of whether market mechanisms are incentivising GPG to be available when needed should be dealt with as part of Energy Ministers' ongoing consideration of the Energy Security Board's post 2025 recommendations.

1.2.2 Role of the South East Australia Gas Maintenance Coordination Workshop

The Draft Report notes that the South East Australia Gas Maintenance Coordination Workshop (SEAGMCW) is the vehicle through which AEMO consults with producers, storage providers and pipeline operators about maintenance planning. The AEMC is seeking feedback on the role of the SEAGMCW and whether its work should be extended or formally acknowledged.[5]

The SEAGMCW has been established by AEMO to assist it in its security of supply and coordination of maintenance function in the Declared Transmission System (DTS) under National Gas Rule (NGR) 326. Participants in the SEAGMWC are either DTS producers, storage providers, interconnected pipeline service providers or operators of assets which directly supply the Victorian market. The inclusion of the latter, is on a voluntary basis and sharing maintenance and outage plans reported to the Bulletin Board to assist AEMO in obtaining a view of security of supply for the Victorian market.

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3 AEMC, *Review of the Gas Supply Guarantee Draft Report,* August 2021, p46

4 *AEMO, Gas Supply Guarantee Guidelines, 1 April 2020, p4*

5 AEMC, *Review of the Gas Supply Guarantee Draft Report,* August 2021, p48

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Maintenance of assets outside of the regulated DTS remain within the control of infrastructure owners/operators in accordance with existing contractual obligations that have proven to be effective in providing appropriate incentives to plan maintenance in a way that minimises market impact. When demand increases facility operators are commercially incentivised to adjust maintenance plans when safe to do so. Any formalisation or expansion of the SEAGMCW membership or coordination role would result in increased costs in contract-carriage markets and a reduction in efficiency in maintenance/outage planning in accordance with existing commercial commitments.

In addition to the above, transparency of gas infrastructure maintenance and outage plans are readily available to AEMO and market participants via the Gas Bulletin Board reporting obligations. Specifically, facility operator's medium and short term capacity outlooks (MTCO and STCO) include maintenance and outage plans for up to 12 months into the future. APA considers AEMO's role in maintenance coordination for the DTS is separate to the GSG and acknowledgement or inclusion of the SEAMCW in the GSG is not appropriate.