

12 September 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

(via email to: aemc@amec.gov.au)

Dear Ms Collyer

RE: GAS SUPPLY GUARANTEE REVIEW DRAFT REPORT: APPEA COMMENTS

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing upstream oil and gas explorers and producers active in Australia. APPEA's member companies account for more than 90 per cent of Australia's petroleum production. Further information about APPEA can be found on our website, at www.appea.com.au.

As one of the parties involved in the initial development of the Gas Supply Guarantee (GSG) in early 2017, APPEA welcomes the opportunity to make a submission on the *2021 Review of the Gas Supply Guarantee Draft Report* (the Draft Report) released by the Australian Energy Market Commission (AEMC) on 29 July 2021. These comments should be read in conjunction with comments from our member companies. These comments also follow our 20 April 2021 submission to the AEMC's 11 March 2021 *Review Of The Gas Supply Guarantee Consultation Paper* (the Consultation Paper).

Comments on the Draft Report

APPEA is disappointed to note the key AEMC recommendations in the Draft Report are as follows:

- *the Australian Government extend the term of the Gas Supply Guarantee another three years to March 2026.*
- *that an assessment on the long term need of the Gas Supply Guarantee be carried out prior to the conclusion of the extended period.*

As noted in APPEA's 20 April 2021 submission to the Consultation Paper, APPEA recommends no changes to the GSG, particularly those relating the definition of a gas supply shortfall or the inclusion of the GSG in the national energy rules. The GSG should be allowed to expire as current planned, that is, on 31 March 2023. There is adequate supply in the domestic market and no supply issues for gas-fired power generation have been identified, either in the Consultation Paper or in the Draft Report.

Further, no compelling need is identified in the Draft Report for additional instruments to ensure supply to the domestic market are for any rationale or reason that would require any changes to, or an extension of, the GSG.

The Draft Report correctly notes there are uncertainties in the electricity sector that will impact on the operation of gas-fired power generation and, consequently, on their need for natural gas and that the supply of gas is expected to continue to play a critical role in the electricity sector for some time, particularly during periods of low variable renewable energy generation or prolonged coal-fired generation outages. However, these findings support the importance of natural gas to the National Electricity Market (NEM) but do not support the continuation of a mechanism such as the GSG.

As noted above, APPEA was a party to the original development of the GSG in early 2017. It was designed to be a low cost, low impact and short-term measure to support the NEM through short-term challenges that it may have faced in the 2017-18 summer following some challenges experienced, due to a particular set of circumstances, earlier in 2017.

The GSG was never designed, or intended, to be a mechanism that sees gas-fired power generation as a “backstop” for any and all issues that may arise in the NEM, including those that may arise from circumstances that have little to do with gas supply to gas-fired power stations.

The GSG’s original term, with its initial planned expiry date of 31 March 2020 was deliberately agreed at the time as adequate (providing for over two years of operation (incorporating three summers)) to assess the need for the GSG, the changing circumstances of the NEM and the role of natural gas. Its subsequent extension to 31 March 2023 means that the NEM will have been through over years of operation (including six summers) since the GSG was initially established. This is a more than adequate time period to consider the need for a mechanism like the GSG.

In addition, and as noted in various places in the Draft Report, the numerous gas market, electricity market and policy and regulatory changes that have occurred since early 2017 have increased the flexibility of the gas market and its interactions with the NEM and have further lessened the need for a mechanism such as the GSG.

As noted in the Draft Report, and supported by the overwhelming majority of submissions to the Consultation Paper, the GSG has not been used and is not expected to be used between now and 31 March 2023. In addition, gas producers have met and continue to meet all obligations under the GSG and have acted in good faith to meet all GSG arrangements, consistent with the commitments made in 2017. It is important, having already extended the term of the GSG once, that governments also meet their GSG commitments, which include the time limited nature of the mechanism. A continuing extend and review process was not part of the commitments agreed in 2017.

APPEA looks forward to your response to these comments and to continuing our engagement on these issues. Please feel free to contact me on 0422 800 201 or at ddwyer@appea.com.au if you have any queries.

Yours sincerely



DAMIAN DWYER
Deputy Chief Executive