

14 April 2021

Gas Supply Guarantee Review
Project Reference Code EMO0041
Australian Energy Market Commission

Submitted via email

Dear Sir/Madam,

Review of the Gas Supply Guarantee

Lochard Energy welcomes the opportunity to provide a submission to AEMC on the review of the Gas Supply Guarantee (GSG). Lochard Energy operates the Iona Underground Gas Storage in Western Victoria that provides winter peaking and firming services to both gas and electricity generation markets.

Although the GSG has not been triggered since its inception, Lochard considers that the rapid changes currently taking place in both the NEM and the East Coast Gas Market warrant its retention. These changes are:

- In the NEM, the increase in renewable non-dispatchable generation and the decline of dispatchable coal-fired generation requires the support of fast-response power sources such as batteries and gas-fired generation.
- In the gas market, the decline of the Gippsland fields, which have provided the majority of supply, including flexibility. They need to be progressively replaced by other sources, such as Queensland coal seam gas or LNG imports, together with increased used of gas storage.

Under these conditions, both the unexpected need for gas-fired generation and unforeseen tightness of gas supply are more likely to occur simultaneously than in the past, and the resolution of these conditions is more likely to rely upon the GSG in the transition period.

The recently released 2021 GSOO and VGPR emphasise the role of storage in meeting peak demand, particularly in Victoria. Lochard is well placed to add capacity to meet peak demand and firming needs, however this is constrained by the capacity of the Southwest Pipeline. Investment in the Southwest Pipeline is subject to a regulatory process designed for a more certain and static era.

Lochard supports the continuation of the GSG as a means of emphasising the need for additional gas delivery capacity in strategic areas. Please find the detailed feedback in the attached GSG stakeholder feedback template.

If you wish to discuss any aspect of this submission further, please contact Ee Siew Ong, Commercial Analyst, on 0407 947 567 or myself on 0427 056 692.

Yours Sincerely,

Becky Nguyen
General Manager Commercial

REVIEW OF THE GAS SUPPLY GUARANTEE STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

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DATE 14 April 2021

QUESTION 1 – PROBLEM DEFINITION

1. Is there a problem with access to gas supply for gas-powered generators in the NEM over the timeframes required to make generators available to support system reliability? Are there any other problems that the Gas Supply Guarantee could solve?	GSG like mechanisms could be used to resolve gas market failures more generally. With the imminent decline in Gippsland gas production southern Australia will lose supply flexibility and resilience. It is expected that supply will become reliant upon LNG imports, involving a considerably longer and more vulnerable supply chain than previously experienced. It should be considered whether GSG-like mechanisms could add value to the authority of NGERAC.
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	<p>Although the GSG has not been triggered, it has contributed to improved management of the electricity/gas markets interface by enabling and compelling AEMO to establish and operate the relevant mechanisms described in section 2.3 of the Consultation Paper. In this way it also signals the need for investment in additional supply.</p>
<p>2. The market dynamics in the east coast gas market and the NEM have changed since 2017. Do these changes impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	<p>The market changes are both rapid and uncertain and appear to increase the likelihood that the GSG will be triggered, in particular:</p> <ul style="list-style-type: none"> ▪ In the NEM, the increase in renewable non-dispatchable generation and the decline of dispatchable coal-fired generation, which must be supported by increased fast-response power sources such as batteries and gas-fired generation. ▪ In the gas market, the decline of the existing fields in Victoria, principally the Gippsland fields, which have provided the majority of supply, including flexibility. They must be replaced by other sources, such as Queensland coal seam gas or LNG imports, together with increased used of gas storage. Supply redundancy at times of peak demand will almost disappear. ▪ Under these conditions, both the unexpected need for gas-fired generation and unforeseen tightness of gas supply are more likely to occur simultaneously than in the past, and the resolution of these conditions is more likely to rely upon the GSG. <ul style="list-style-type: none"> ○ For example, in the past gas-powered generation has mainly been required in summer to meet peak electricity demand and has used gas capacity that is only required to meet peak gas heating demand. In future supplementary generation may be required on a cloudy, windless day in winter that coincides with peak gas heating load. <p>Lochard Energy considers that the GSG should be retained until the pressures that gave rise to it have significantly abated.</p>
<p>3. A number of regulatory reforms have occurred since 2017 as well as government initiatives. Do these changes</p>	<p>Although the reforms and initiatives that have occurred in the gas sector have led to some improvements in facilitated market liquidity, these markets remain relatively</p>

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<p>impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	<p>shallow and gas buyers continue to rely upon term contracts with gas producers as their principal sources of supply. Tightness in the contract market has not been resolved¹ hence the ADGSM, the Federal Government HoA with LNG producers and the ACCC Gas Inquiry are all continuing. The GSG is an offshoot of the ADGSM and should also continue.</p>
<p>4. Are there any other relevant changes that could impact the issues the Gas Supply Guarantee was introduced to resolve?</p>	<p>The National Gas Infrastructure Plan (NGIP) announced by the Commonwealth may result in the creation of additional gas supply capacity which enables the market to more readily manage gas supply without intervention under the GSG. However, this cannot be determined until the NGIP is released. Preservation of existing infrastructure is also required. For example, in the changing future gas supply patterns, operators of pipelines with declining utilisation may save costs by removing redundant compressors. However, the capacity lost may contribute significantly to emergency supply management and mechanisms to encourage its retention should be considered.</p>
<p>5. Do you see a scenario in which the Gas Supply Guarantee could be triggered?</p>	<p>Yes, the scenario in which high GPG demand coincides with high gas heating loads, outlined in point 2 above.</p>
<p>a. What would be the drivers of such scenario?</p>	<p>Coincident demand for gas for GPG and gas heating</p>
<p>b. What is the likelihood that such a scenario would occur?</p>	<p>Increasing significantly</p>

QUESTION 2 – IMPACT OF THE PROBLEM

<p>1. Under a scenario where issues arise in the NEM and gas market that might see the Gas Supply Guarantee triggered:</p>	
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¹ Gas Market Inquiry Interim Reports, ACCC, various dates.

<p>a. What would the impact of not having the Gas Supply Guarantee in place be?</p>	<p>The mechanisms put in place by AEMO to resolve issues triggering the GSG may have been discontinued unless continued under an alternative direction/authority.</p>
<p>b. How material would the impact of no Gas Supply Guarantee be?</p>	<p>Potentially, curtailment of either electricity or gas customers. The economic value of curtailment can be measured by the “value of customer reliability”, which is taken into account in setting market price caps. Using current Victorian Gas Market and NEM price caps, a 100TJ gas curtailment would have an implied value of \$80m to gas customers and \$100m to electricity customers.</p>
<p>c. Who, in the NEM and the east coast gas market, would be impacted?</p>	<p>Customers who are curtailed and retailers affected by high market prices not recoverable from those customers who remained online.</p>

QUESTION 3 – ASSESSMENT FRAMEWORK

<p>1. Do you consider the proposed assessment framework relevant for the AEMC to consider the value of the Gas Supply Guarantee (or an alternative mechanism)?</p>	<p>Lochard Energy is of the view that the GSG should be assessed in the same way as the ADGSM was assessed in 2020. The GSG came about because of concerns about gas supply that had led to the ADGSM, which itself was not subject to the NGO and is outside of the NGL and NGR. The GSG should be assessed on the same basis as the ADGSM, which was reviewed in 2020², rather than the very broad-brush NEO and NGO market objective statements proposed by the AEMC. The ADGSM review concluded that: “While there have been clear improvements in the eastern gas market, the market remains uncertain and persisting pressures still need to be addressed. As such, the review recommends retaining the ADGSM until its scheduled cessation in 2023.” It did not refer to the NEO or the NGO.</p>
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QUESTION 4 – POTENTIAL SOLUTIONS

² Review of the Australian Domestic Gas Security Mechanism, Department of Industry, Innovation and Science, January 2020.

<p>2. Is the Gas Supply Guarantee mechanism fit for purpose? Why?</p>	<p>The GSG could potentially be improved by involving all gas supply participants instead of being restricted to gas producers and pipelines, i.e. extended to include peaking gas suppliers and the holders of contracts with producers, pipelines and peak suppliers. In this way the GSG would provide incentives for peaking gas supply as well as base load gas supply provided by gas producers.</p> <p>The GSG could also be improved by extending it to respond to potential gas outages as well as electricity outages related to gas supply.</p>
<p>3. Are there alternative solutions?</p>	
<p>a. Are there rules in place, or under development (in the NER and/or NGR), that provide a better solution?</p>	
<p>b. Do other approaches or mechanisms (that are not rules-based) provide a better solution?</p>	
<p>c. How would each potential solution address the issues?</p>	
<p>d. Who, in the NEM and the east coast gas market, would be impacted by each potential solution?</p>	

4. Additional Responses

The gas industry's ability to respond to the rapidly deteriorating supply position in Victoria and other southern regions is, in Lochard Energy's experience, severely constrained by the current pipeline regulatory process.

The 2021 GSOO and VGPR recently released by AEMO emphasise the role of storage in meeting peak demand, particularly in Victoria, and the constraints upon expansion of Lochard Energy's Iona Storage Facility imposed by the limited current capacity of the South West Pipeline (SWP). These constraints also apply to the development of new Otway Basin Production capacity.

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Lochard Energy is well placed to add to Iona storage capacity, however the decisions to expand pipeline capacity are constrained by a regulatory expenditure approval process that operates in a five-yearly cycle. While investment decisions can be made within the cycle this generally leaves the pipeline operator exposed to risks that investment spending will not subsequently be approved by the regulator. The pipeline investment process needs to be more flexible to facilitate industry responses to the need for additional capacity and render the GSG unnecessary.