



INFORMATION

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Initial findings for the Review of the Gas Supply Guarantee

The Australian Energy Market Commission (AEMC) has published a draft report for its review of the Gas Supply Guarantee. It recommends the Australian Government extends the term of the Gas Supply Guarantee for three years to March 2026, with an assessment of the long-term need of the mechanism to be carried out prior to the conclusion of this extended period.

Purpose of this review

The purpose of this review is to establish the value of the Gas Supply Guarantee to the national electricity market (NEM) and electricity consumers. In particular, the problem this review seeks to assess is whether the Gas Supply Guarantee (or an alternative mechanism) is needed to ensure continued supply of gas to support peak demand periods in the NEM.

Draft recommendation

The AEMC's draft recommendation is:

- for the Australian Government to 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 this extended period.

The AEMC has made this draft recommendation in recognition of the current uncertainties in the east coast energy sector, particularly the transition in the NEM to a greater use of variable renewable generation. It is prudent under the current changing circumstances that the Australian Energy Market Operator (AEMO) and market participants be able to access a tool such as the Gas Supply Guarantee that could assist them in managing potential gas supply shortfalls faced by gas-powered generators.

Reflecting the low cost, light handed nature of the current Gas Supply Guarantee, the flexibility of the Gas Supply Guarantee Guidelines in dealing with issues as they arise and the role the guidelines play in bringing industry together to share information when it is needed most, the AEMC does not recommend any fundamental change to the mechanism such as including it in the national energy rules at this time. It is satisfied that continuation of the current arrangements for another three years is likely to be consistent with the long term interests of electricity and gas consumers.

The AEMC anticipates that a review of the Gas Supply Guarantee in three years' time will indicate whether the transformation of the energy sector still requires a mechanism of this nature or if the risks to supplying gas-powered generators have changed such that the Gas Supply Guarantee is no longer needed.

Potential improvements to consider

The draft report also explores potential improvements for the NEM and east coast gas market that have been identified by AEMO, focusing on two key areas that should be assessed more closely and in light of stakeholder feedback:

- potential amendment of the definition of a gas supply shortfall
- how the work of the planned maintenance coordination forum run by AEMO can be best acknowledged.

We recommend the Australian Government to extend the Guarantee for three years to March 2026, with another assessment to be carried out prior to the conclusion of this extended period.

Consultation

The AEMC received 11 submissions to the consultation paper published on 11 March 2021 and held over 25 meetings with stakeholders during the initial consultation phase. The AEMC also worked collaboratively with AEMO through the review process.

Next steps

The AEMC invites stakeholders to provide written submissions in response to the draft report by **Thursday 9 September 2021**.

Following consideration of written submissions and other relevant information provided by stakeholders, the AEMC will publish a final report. The AEMC is required to report back to the Energy Ministers with its final recommendations in quarter 1, 2022.

Background

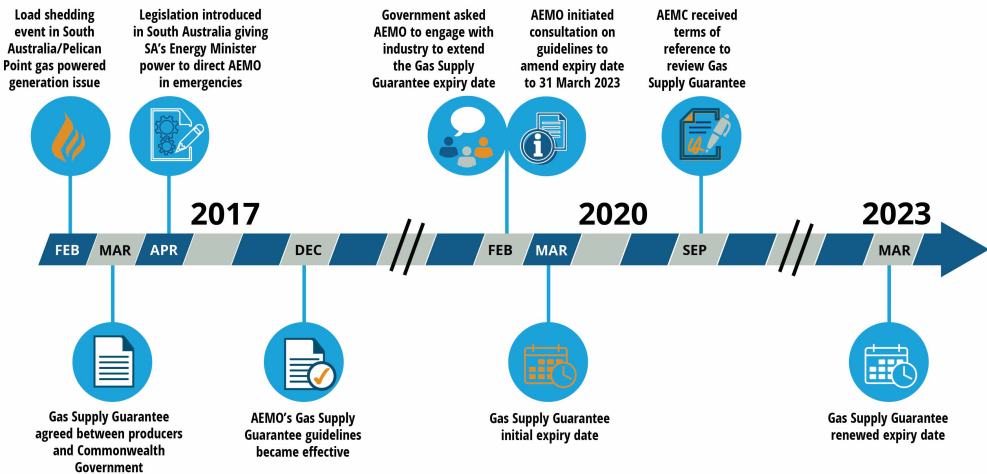
The Guarantee was initiated by the Australian Government in March 2017 in a package of gas market initiatives that included the Australian domestic gas supply mechanism (ADGSM). Under the mechanism, gas producers and pipeline service providers made voluntary commitments to the Australian Government to supply gas-powered generators to regions under system stress, such as demand spikes during heatwaves.

To support gas producers and pipeline service providers delivering on these commitments, the Gas Supply Guarantee guidelines were developed by the market operator, AEMO.

Under these guidelines, AEMO monitors gas and electricity market outlooks to help it form a view on the risk of supply shortfalls in gas available to meet the needs of gas-powered generators operating at the capacity required during peak demand periods in the national electricity market. If AEMO considers that there is, or there may be, a shortfall then a conference of industry participants is convened to resolve the supply inadequacy.

The timeline below illustrates all the key milestones related to the Gas Supply Guarantee since its implementation.

Figure 1 — Gas Supply Guarantee timeline



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