

15 April 2021



Daniela Moraes
Australian Energy Market Commission

Submitted electronically.

Dear Ms Moraes,

Review of the Gas Supply Guarantee

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to Australian Energy Market Commission's (AEMC) review of the Gas Supply Guarantee (GSG).

PIAC considers there is not likely a critical ongoing need for the GSG, however, it may provide some benefits for consumers through improved planning and forecasting and avoided reliability costs. The mechanism should be retained only to the extent these potential benefits outweigh its costs.

The need for the Gas Supply Guarantee

With the information available and given the number of changes to the energy market and system during the GSG's operation, PIAC is unable to comment on whether the mechanism has prevented gas supply shortfalls since it was established.

PIAC notes gas is becoming an increasingly smaller portion of demand in the NEM. In 2020, Gas Power Generation (GPG) gas demand was 23% lower than 2019, and the lowest in over a decade. The main contributors to this fall were thought to be mild weather, increased distributed photovoltaics (PV), and growth in Variable Renewable Energy (VRE)¹. While gas still has a significant role in meeting peak demand, this role will likely change as batteries and other sources of dispatchable peak capacity become available.

Investment in new gas generation is unlikely to be economic or needed, however changes in the generation and storage mix may threaten the viability of existing plant. With more reliance on VRE, and increasing capacity being linked to the charge states of storage, the system may become more dependent on more gas capacity than today but for less frequent periods and using less overall gas volume. This volatility and unpredictability

¹ AEMO, 2021. 2021 Gas Statement of Opportunities, p8

may act as a disincentive for existing gas generators to arrange to have gas available when needed.

Nevertheless, PIAC considers cheaper variable renewable generation sources; new market mechanisms aimed at ensuring reliability and security; and reform processes underway have made the threat of supply shortfalls during peaks - the reason the GSG was created - much less likely. In particular, Wholesale Demand Response and Five-Minute Settlement, as well as the increased use of alternative fuels and sources of capacity such as batteries and improved energy efficiency are providing cost-effective means of meeting reliability standards. We also note the specific gas-related measures detailed in the review paper have increased the liquidity, capacity and flows of gas in the east coast market, reducing the likelihood of a shortfall.

These developments suggest there is unlikely to be a critical need for the GSG in future.

We also note the mechanism has never been triggered, suggesting there has been no imminent gas shortfall during its operation.

Benefits and costs of the mechanism

While perhaps not critical in preventing gas supply shortfalls, evidence suggests the GSG provides value in energy system planning processes and in avoiding more costly regulation.

AEMO has stated it uses the GSG in its summer readiness work to help manage gas supplies and prevent gas supply shortfalls for power generation. The GSG may become even more valuable in planning and forecasting as the rapid energy transition increases uncertainty in the system and in gas demand for peaks, as mentioned above.

The mechanism may also save consumers costs by reducing the need for more expensive reliability measures such as Reliability and Emergency Reserve Trader, and by avoiding the need for more costly regulation or intervention in the gas markets.

PIAC considers the mechanism is unlikely to create significant additional costs for consumers as it is industry-led and is yet to be triggered. However, the expense of its ongoing operation through AEMO will be recovered in-part from consumers through direct and indirect fees.

Further analysis is needed to determine whether the GSG is of net-benefit to consumers. However, given the mechanism's limited use so far and the likely reduced need for it in future, we caution the AEMC against investing significant further resources into processes concerning it.

We welcome the opportunity to discuss these matters further with the AEMC.

Yours sincerely

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