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Submission: AEMC Rule Change Request – Supplier of Last Resort mechanism for the East Coast Gas System

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure. APGA members ensure safe and reliable delivery of over 1,500 PJpa of gas consumed in Australia alongside over 4,500 PJpa of gas for export.

APGA welcomes the opportunity to contribute comments to the Australian Energy Market Commission's (AEMC) draft determination on establishing a supplier of last resort (SoLR) mechanism for the East Coast Gas System (ECGS). Taken singularly, the SoLR mechanism is not so much new policy as it is an evolution of the trading function for AEMO introduced as Stage 1 of the ECGS supply adequacy and reliability reforms.

APGA does not oppose the AEMC's preferable rule. Explicitly linking use of AEMO's directions functions with the proposed tiered threat signalling mechanism will both provide guidance and clarity to both AEMO and to market participants on the use and extent of those functions and, if necessary, initiation of competitive tendering mechanism. It also implicitly prioritises market-let responses, as the SoLR mechanism should only be triggered if a market notice fails to prompt a market response to a particular threat.

Overall the package is a reasonable proposal to implement a SoLR mechanism, although APGA remains unconvinced that it is truly necessary to address supply adequacy issues. In our submission APGA provides suggestions at several minor but meaningful amendments to the draft Rules to ensure that the mechanism remains a truly last resort tool.

Managing shortfall risk in a changing regulatory environment

Reliability and supply adequacy in the ECGS is a more complicated story than simply a shortfall in supply. As the AEMC noted in its directions paper on a preferable rule enhancing reliability and supply adequacy arrangements for the ECGS, rather than implementing a static reliability standard:

"In the short-term, reliability and supply adequacy risks are primarily driven by the deliverability of gas. That is, the ability to transport available gas to where it is needed, rather than by the overall availability of gas molecules."¹

While supply adequacy is an ongoing concern, APGA has consistently advised governments have a broader goal of boosting supply while also ensuring that the correct environment is in place for investment in the transport capacity to get it where it needs to go. In short, investment in gas transport requires regulatory stability, not further intervention.

When considering the proposed SoLR mechanism, the environment of increasing regulatory change is a key consideration. Interventions have steadily weakened the linkage between gas supply and transport investment, and firm long-term supply and transport contracts, and hence contributed to a chilling in investment in gas transport infrastructure.

Ten years of regulatory instability has chilled investment

While the ECGS supply adequacy reform process began in 2022, following the start of the war in Ukraine, the story that has led to where we are today began much earlier. In 2016, the ACCC East Coast Gas Inquiry recommended significant reforms to the operation of gas markets, including the introduction of a capacity trading platform run by AEMO for trading pipeline, storage, and compression services, and the Day Ahead Auction, a daily auction of contracted but un-nominated capacity on transmission pipelines with reserve price of \$0, aimed at reducing "contractual congestion".

The ability of gas customers to access their gas transport at a cost potentially much lower than the cost of providing the service has had predictable effects, especially for foundation contracts which are the basis of new pipeline development. Reforms like the Day Ahead Auction provide a strong disincentive for gas customers to contract all, or even most, of their transport needs, which in turn disrupts the link between firm gas transport contracts and the economic viability of new pipeline development.

To broadly simplify current arrangements and why it is important, pipelines across the east coast have historically sent gas south to north. As Victoria's gas production has declined and reliance projected to increase following coal plant retirement, getting gas to flow in the other direction has become critically important. This will require investment to augment existing pipelines and potentially build entirely new ones – investment that will rest on the strength of long-term foundational contracts which have been consistently undermined by regulatory intervention.

¹ AEMC, 2026, *Draft rule determination: National Gas Amendment (ECGS Enhancing reliability and supply adequacy arrangements) Rule 2026*, <https://www.aemc.gov.au/sites/default/files/2026-02/ECGS%20Enhancing%20reliability%20and%20supply%20adequacy%20-%20Draft%20determination%20%281%29.pdf>

The 2016 reforms were followed by a swathe of other consequential adjustments to economic and regulatory frameworks for pipelines including the Form of Regulation Review process that gives the Australian Energy Regulator the power to change the form of regulation applying to a pipeline, at any time. This has had a chilling effect on investment in gas infrastructure, exemplified by the two year delay on investment decisions for projects such as the East Coast Grid Expansion and expansions on the Moomba to Sydney Pipeline.

At a minimum, governments should prioritise restoring investor confidence though incentivising long-term contracting rather than further interventions. It is worth noting that during the gas supply crisis in 2022 that led to the ECGS package of reforms, gas customers with firm supply and haulage did *not* experience undersupply risks. Customers without firm supply and haulage contracts *were* at risk of price shocks. It is not, and should not, be the responsibility of AEMO to manage those risks on behalf of gas customers, where those may be reasonable and defensible business decisions.

“Stage 3 reforms” will not solve this problem

The AEMC makes reference to a third “last resort” reform package for the RSA framework, the Long Term Reliability and Supply Adequacy Tool (LT RSA). If implemented, this would enable AEMO to directly support supply-side gas investments as a last resort.

APGA provided a comprehensive submission to the consultation process,² but in summary, while intended to be “last resort”, the mere existence of the LT RSA tool would materially alter commercial behaviour in, again, predictable and rational ways, including shippers delaying or weakening commitments to foundation contracts in anticipation of AEMO support that could enhance their commercial interests. It is likely that rather than a last resort, the powers would influence market behaviour in such a way that they would become *de rigueur* powers.

APGA opposed the LT RSA as there is a substantial risk that the powers would become an implicit precondition for gas infrastructure projects reaching FID. It is worth further considering what impact a “supplier of last resort tool” would have on market behaviour.

Preferable rule: modifications and a lighter touch mechanism

APGA does not oppose the AEMC’s preferable proposed rules and, unlike the LT RSA, APGA considers that for the most part, there are sufficient guardrails in the operation of the SoLR mechanism to bulwark against unintended market behaviour. However there remain several consequential wording amendments required, suggested below.

² APGA, 2026, *Submission: Proposed extension of AEMO’s supply adequacy functions for the ECGS*, <https://apga.org.au/submissions/proposed-extension-of-aemos-ecgs-rsa-functions>

Ensuring SoLR is a genuine last-resort option

Some amendments are required in the draft rules to ensure sufficient consultation with, and notice given to, industry ahead of tendering or activating SoLR contracts.

AEMO 'must' rather than 'may' publish notices prior to activating the SoLR, to ensure the operation of the SoLR is genuinely last resort and supports market-led responses. The current drafting of subrules 696B(1) and 696B(2) use the word 'may'; this conflicts with subrule 699I which assumes that such a notice has been stated prior to conducting a tender process. These instances of 'may' should be amended to 'must' to avoid AEMO tendering for SoLR contracts without having published a notice.

696B Information on AEMO acting as Supplier of Last Resort

- (1) Subject to subrule (3), AEMO **may** specify in a notice under rule 696A(1) that AEMO intends to tender for SOLR service contracts in accordance with Division 4B to address the relevant tier 3 threat. The specification must include the following information:
 - (a) the reasons for AEMO establishing SOLR service contracts;
 - (b) the nature and expected magnitude, timing, duration and location of the tier 3 threat;
 - (c) the types of SOLR service contracts AEMO is considering or seeking to establish in order to address the tier 3 threat; and
 - (d) the actions or circumstances AEMO considers would constitute an adequate industry response in relation to the tier 3 threat.
- (2) Subject to subrule (3), AEMO **may** specify in a notice under rule 696A(3) that AEMO intends to activate SOLR service contracts in accordance with Division 4B to address the relevant tier 3 threat. The specification must include the following information:
 - (a) any updates to the nature, magnitude, timing, duration and location of the tier 3 threat;
 - (b) the types of SOLR service contracts AEMO may activate; and
 - (c) the circumstances that may cause AEMO to activate the SOLR service contracts.

Set a positive obligation for AEMO to consult with industry and demonstrate there are no reasonable alternatives ahead of activating the SoLR mechanism. The draft Rules (such as in 699H) require AEMO to consider whether other functions are available before tendering or activating SoLR service contracts. This should be strengthened by:

- **Requiring AEMO to convene a Gas Supply Adequacy and Reliability conference.** This should be included in 699H (following the process in Rule 692) to consult and share information with industry about actual or potential risks or threats.
- **Requiring AEMO to positively demonstrate there are no reasonable alternative options before activating the SoLR.** Subrules 696B(1) and 696B(2) are subject to the obligation imposed in draft subrule 696B(3) which simply requires AEMO to *determine* that other functions are unavailable or insufficient. This is not an explicit requirement for AEMO to *demonstrate* this determination to the market, in notices published under 696B(1) or

(2). APGA recommends that either (3) be amended to add “and demonstrate” after “determine”, or that this be specifically addressed in the information requirements under 696B(1) or (2).

- (3) AEMO may only specify that it intends to tender for SOLR service contracts under subrule (1), or activate SOLR service contracts under subrule (2), if it has determined that AEMO’s other functions would not be available, or would be insufficient, to address the tier 3 threat.

Overall operation of the SoLR mechanism

A competitive tender process for AEMO to contract supply- and demand-side responses is sensible. While demand-side responses may realistically be limited, the framework should retain the flexibility for this to be part of the solution suite for a particular threat event; accordingly APGA concurs with the AEMC’s proposal not to implement separate ‘SoLR reserve’ and ‘Other SoLR reserves’.

On availability payments, APGA accepts that demand-side responses may be of limited application, given that many larger demand customers cannot *currently* dial down usage. APGA agrees with the AEMC that incentives may be required for large gas consumers to make investments to ensure their gas is flexible enough to bid into the SoLR tendering process, where it is possible for them to do so, and that the ability to make these payments may encourage further investment in flexible demand.

The ability for AEMO to contract LNG under the SoLR mechanism is currently limited by the fact it is not considered a ‘covered gas’, which was one of the items to be addressed under the LT RSA package. Given industry opposition to that package we suggest it would be sensible to address this issue in this rule package, to ensure AEMO has the flexibility to do this in a way which is not linked to the uncertain LT RSA proposal.

The SoLR service price limit and cost recovery proposals are reasonable and likely the simplest to implement. APGA notes that proportional allocation of costs participant gas demand relevant to the SoLR intervention would disadvantage facilities which are fully contracted or cannot easily ramp down demand.

To discuss any of the above feedback further, please contact me on +61 409 489 814 or crfael@apga.org.au.

Yours sincerely,



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