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Department of Climate Change, Energy, the Environment and Water
Australian Government

Submitted online at: <https://consult.dcceew.gov.au/proposed-extension-aemo-ec-gas-system>

Re Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions

The Australian Energy Council (AEC) welcomes the opportunity to provide comment on the Department of Climate Change, Energy, the Environment and Water (DCCEEW) Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions consultation paper.

The AEC is the peak industry body for retailers and generators operating in energy markets. Our members generate and sell energy to over 10 million homes and businesses. We seek to deliver a market that allows consumers to benefit from the transition to a reliable, affordable and decarbonised energy system. The AEC supports the transition to net zero emissions by 2050, and the role of the electricity sector in unlocking opportunities for reductions in other sectors. AEC members are major investors in the renewable energy, firming and energy security services needed to deliver an effective transition.

Overall Views

A well-functioning east coast gas market is important for all market participants, including gas consumers and gas-powered generators (GPG). Whilst overall domestic gas demand is likely to fall over time, gas will remain of strategic importance, including to firm up variable renewable energy generation.

The Gas Market Review 2025, which was released last December, included recommendations to streamline the various ad hoc government interventions that had been made in recent years. Part of the reasoning behind this was to try and restore some policy stability so that participants are able to confidently operate and transact in the market. This current consultation, which proposes a further intervention extending AEMO's powers to include an investment support power, risks being contrary to one of the core objectives of the review by threatening to erode long-term certainty and stability of the policy landscape.

It may be tempting to think that interventions are necessary to shepherd the gas market through the current challenges. However, interventions which crowd out private investment, can exacerbate rather than address any potential supply shortfalls. In this case, the mere existence of AEMO's potential powers – which can significantly alter supply and pricing dynamics – may delay private investment in new supply. Further, if an intervention does take place, it is likely to be at additional cost to gas and electricity consumers, who will end up subsidising the investment. Additional costs could be quite substantial, especially for commercial and industrial (C&I) customers. This comes at a time when cost of living pressures are already impacting a

significant proportion of gas and electricity consumers. Governments should avoid adding further layers of cost to consumer bills.

Related to this, we have observed that AEMO's supply/demand assessments continue to push back projected shortfalls.¹ If this trend persists, it may further contribute to delays in investment in new supply options. We agree that the Gas Statement of Opportunities (GSOO) should be improved. This should include more informed, solidified forecasting by AEMO to provide clear and consistent signals to market participants around the types and timing of investments required to address identified gaps.

If Governments are concerned about projected gas shortages, a better alternative may be for the jurisdictions in question to provide a simple subsidy to particular gas market projects. The cost of this could be funded on budget and recovered in a more equitable manner. However, our first preference is to allow the market to work, with no interventions.

We also recognize that there is a moral hazard with this mechanism, with participants potentially incentivised to employ less prudent contracting approaches in the knowledge that AEMO will intervene in the market if risks emerge.

Detailed Comments

The following comments relate to specific design elements discussed in the consultation paper.

Trigger

To prevent AEMO's proposed powers from being prematurely exercised, DCCEEW should consider adding a constraint to the framework that stipulates how far in advance of a shortfall AEMO could exercise the new mechanism or conditions around the materiality of the shortfall that is to be addressed. This threshold could serve as a trigger with AEMO unable to use the contracting mechanism unless the shortfall exceeds the threshold.

Tender process

The consultation paper discusses how AEMO may run a competitive tender process to encourage a least cost intervention. However, specific project and geographical considerations mean there may not be enough suitable projects to drive a truly competitive result. This could make it difficult for AEMO to minimize its contracting costs. For example, when it comes to LNG regasification terminals there are only a few potential projects proposed. Where this power is used to support a regasification terminal, it is imperative that AEMO's contracting is strictly limited to supporting the regasification infrastructure and that AEMO is not permitted to purchase LNG spot cargos. AEMO is not suited to managing the significant risks associated with spot cargoes which are very sizeable commitments (3.5-4 PJ per cargo) and have pricing terms linked to international indices (which can be volatile).

¹ For example, AEMO's 2024 Gas Statement of Opportunities (GSOO) forecasts structural shortfalls from 2028, while AEMO's 2025 GSOO pushed this shortfall back a year to 2029.

Cost recovery

As noted above, a simpler and more economically efficient solution would be for the jurisdictions in question to provide a direct subsidy and then recover this from their taxation base, not gas and electricity consumers. If this is not pursued, we consider the cost recovery approach set out in the paper should be improved and made fairer. Widely smearing AEMO's contracting costs across consumers in affected regions could lead to a perverse outcome where those participants that have prudently managed their exposure by signing long term contracts incur costs due to the inaction of other participants who have not adequately managed their exposures. There would be merit in DCCEEW exploring a cost recovery mechanism based on a *causer pays* principle, although we acknowledge that this could also be complex.

The proposed cost allocation process described in the paper also relies on estimating GPG demand. This would be very difficult to estimate, with GPG demand highly variable over time and dependent on a range of factors including the availability of other generation, storage and weather. Whilst this could be modelled, it is likely to vary greatly year on year.

Cost-pass through

The proposed pass-through mechanism also raises practical implementation concerns for retailers. In practice, retailers will be responsible for recovering these costs from customers, yet the payments will not be known until well after an event occurs. This creates the same timing issues experienced with the RERT - by the time costs are determined, customers may have already churned, making recovery both difficult and inequitable.

Making services available

In terms of making AEMO-supported services available, to the extent that a service can be sold via an AEMO facilitated market, then AEMO should support this.

Lastly, the paper proposes the sale of any AEMO-supported services would be subject to a reserve price, which would represent the minimum price for the service. We consider this aspect of the framework should be formalised, as this could help to play an important role in preserving the rights of foundational customers. There also needs to be an emphasis on price transparency, if these services are made available on a facilitated market, so the market can know the true costs involved.

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