

PROPOSED EXTENSION OF AEMO'S EAST COAST GAS SYSTEM RELIABILITY AND SUPPLY ADEQUACY FUNCTIONS | CONSULTATION

Australian Energy Producers | 13 February 2026

Australian Energy Producers welcomes the opportunity to provide input on the proposed extension of the Australian Energy Market Operator's (AEMO) east coast gas market powers.

The Australian oil and gas industry is essential to Australia's energy security and economic prosperity. The Australian Government's Future Gas Strategy confirmed natural gas will play a critical role in Australia's energy mix to 2050 and beyond, and continued investment in exploration and production is needed to meet this long-term demand.

The Gas Market Review confirmed the current patchwork of market interventions has not worked and that fundamental market reform is required. The Gas Market Review concluded that government interventions in the east coast gas market "have not been able to establish sufficient long term investment certainty, are not able to directly and in themselves guarantee or direct supply, and need to evolve to address the long term, structural challenges facing Australian gas markets." The Review recommends establishing a domestic gas reservation scheme and removing the existing emergency measures, including the Australian Domestic Gas Security Mechanism (ADGSM), Heads of Agreement (HoA), and the price provisions of the Gas Market Code.

The proposal to extend AEMO powers represents a major intervention that risks impacting investment certainty, crowding out private sector investment and discouraging long-term contracting. Australian Energy Producers does not support expanding AEMO's powers in the east coast gas system, including introducing a long-term reliability and supply adequacy (LT RSA) tool and extending the Gas Statement of Opportunities (GSOO). The priority of Commonwealth and state governments should be on implementing the Gas Market Review findings in a way that strengthens the investment environment for gas producers and users on the east coast, and fast-tracking the 140 PJ/year of development ready supply that has been identified by east coast gas producers.

SUMMARY OF RECOMMENDATIONS

1. **The Energy and Climate Change Ministerial Council (ECMC) should not proceed with the proposal to extended AEMO market powers** and instead focus on working with industry to implement the recommendations of the Gas Market Review.
2. **The Commonwealth and states should pursue all actions to accelerate new gas supply and streamline approvals.**
3. **The Department of Climate Change, Energy, the Environment and Water should release in full the modelling by ACIL Allen** that is cited to justify introducing the LT RSA tool.
4. **The ECMC should not extend the scope of reporting requirements under the GSOO.**

Australian Energy Producers is committed to working with Federal and state governments to deliver a robust and enduring east coast gas market policy framework that works for gas producers and users. Our detailed comments and recommendations are provided below.

COMMENTS AND RECOMMENDATIONS

The prospect of new and unpredictable interventions will further undermine long-term investment

Recommendation 1: ECMC should not proceed with the proposal to extended AEMO market powers, given that:

- a. the Commonwealth and states have not pursued reforms to stimulate additional private investment in gas exploration, production and related infrastructure
- b. the tool faces conflicting requirements to be both “timely” and “for use only as a last resort”
- c. the powers risk exacerbating policy uncertainty, discouraging private investment, entrenching short-term contracting, and socialising private losses among consumers

No new interventions should be considered ahead of the government finalising the design and implementation of the Gas Market Review recommendations.

The LT RSA tool would discourage private investment and exacerbate the very risks it seeks to mitigate. This in turn would accelerate shortages and result in higher market prices for consumers. The tool is intended to address market participants’ concerns of increasing barriers to entering long-term or large contracts that are required to underpin investments by gas supply infrastructure proponents. The LT RSA aims to support timely investment in gas infrastructure to avoid structural supply shortfalls, or prolonged threats to the reliability or adequacy of supply. It is conceived as a last resort mechanism to address a perceived market failure of delayed investment:

“The LT RSA tool is intended to be a **last resort** tool that could be used to **support investments in supply-side projects** that could prevent, reduce or mitigate prolonged threats to the reliability or adequacy of gas supply in the ECGS [east coast gas system], where the market is unable to deliver the investment in time and other conditions for its use are met.”¹

However, the requirement to be “timely” sits uncomfortably with the safeguard of “last resort”. Once the market operator identifies and communicates a threat to the reliability or adequacy of supply, private agents will factor in the potential for intervention and adjust their behaviour accordingly. That is, the act of identifying and communicating a potential shortfall is itself a form of intervention, with material implications for investment and contracting decisions. Project proponents may delay or redirect investments to avoid competing with government-supported projects, while gas users can be expected to prioritise shorter-term contracts to avoid underwriting projects that risk becoming uneconomic or stranded.

Further, there is a relatively low hurdle for triggering the mechanism, which heightens the risk that it wouldn’t be used as a last resort measure. Ministers and AEMO only need to “have regard” to the last resort investment objective proposed. Ministers would also have no direct accountability for costs under the proposed model, which would be recovered from energy users.

The LT RSA encourages gas buyers to put off long-term contracting and instead wait for AEMO to exercise its powers and socialise the risks of new gas supply infrastructure projects. The consultation paper underestimates the influence of government processes on investment

¹ Department of Climate Change, Energy, the Environment and Water, [Proposed Extension of AEMO’s East Coast Gas System Reliability and Supply Adequacy Functions](#), consultation paper, p. 15, emphases in original.

expectations and decisions. If a potential purchaser of gas supply anticipates that the supply will come from a project that may be affected by the LT RSA tool, it will have a strong incentive to wait. This is because if the buyer enters into a long-term gas offtake agreement on commercial terms, subsequent intervention by AEMO will distort market prices and supply, and may render that project expensive or unnecessary. Where a buyer underwrites a project that subsequently receives public support, there is a risk of being charged twice – both under the original commercial offtake, as well as through residual cost-recovery arrangements applied to users in affected jurisdictions.

Conversely, market participants would benefit from waiting until AEMO has fully deployed the LT RSA tool, as the market operator would be substantially covering the private risk of new gas infrastructure projects. Giving AEMO the ability to terminate procurement processes up to the point of awarding investment support contracts, could not be relied upon to ameliorate the moral hazard induced by the market operator's prior actions to identify and address shortfall threats. The recognition that government procurement processes are likely to be slow, and may give the market sufficient time to solve the problem after all, reinforces doubts about the practicability of the tool.²

The argument that the LT RSA tool would be a last resort to address market failure, is undermined by the fact that jurisdictions have not pursued all possible reforms to stimulate additional private investment in gas exploration, production and related infrastructure (see below). Further, the Gas Market Review found that current regulations have neither addressed structural shortfalls, nor provided the certainty required to encourage investment in new supply, nor helped to maintain Australia's reputation as a reliable trading partner.³ The consultation paper assumes rather than establishes the case for further intervention, and underestimates the adverse effects of doing so. And where the consultation paper does reflect on the "large number" of suboptimal projects over the past ten years – characterised by excessive development costs, delays or operational problems – it effectively makes the case for market selection over government direction.⁴

The proposal to expand AEMO's powers overlaps the Australian Government's plan to introduce a domestic gas reservation scheme and reduce red tape. The consultation paper states that:

"Officials intend to maintain a holistic view of the interrelationships between the existing and proposed measures, to ensure a coordinated, well-aligned suite of measures that preserves market incentives to invest".⁵

However, it is unclear how the prospect of new and significant intervention by AEMO to address gas supply shortfalls would complement and advance the objectives of the Australian Government's domestic gas reservation scheme, which is intended to be a fundamental reform to ensure domestic energy security, provide long term certainty for commercial production and investment, and streamline the regulatory framework.⁶ Additionally, while the reservation policy is scheduled to commence in 2027, the timeline for projects facilitated by the LT RSA tool is multiple years, well beyond the commencement of the new gas market framework. Key milestones that need to occur before the LT RSA could actually deliver new gas supply to market include legislative changes post mid-2026

² *ibid.*, p. 16.

³ Department of Climate Change, Energy, the Environment and Water and Department of Industry, Science and Resources, [Gas Market Review Report](#), 22 December 2025, pp. 46, 80f.

⁴ Department of Climate Change, Energy, the Environment and Water, [Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions](#), consultation paper, p. 23.

⁵ *ibid.*, p. 8.

⁶ Department of Climate Change, Energy, the Environment and Water, [Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions](#), consultation paper, p. 8f.

ministerial advice, preparation of an extended GSOO with a ten-year horizon, threat diagnosis and market communication, ministerial consent, procurement and evaluation processes, execution of investment support contracts, project approvals, and subsequent construction. AEP considers that government efforts should be focused on carefully designing and implementing a prospective domestic gas reservation scheme linked to new supply, in parallel to complementary market reforms.

The proposal to expand the AEMO’s reliability and supply adequacy functions in the east coast gas system would give the market operator significant and broad discretion to intervene further in markets that are already highly regulated. AEMO would be responsible for diagnosing threats within a ten-year horizon to the reliability or adequacy of supply in east coast gas system, communicating these threats to the market (through an extended Gas Statement of Opportunities), seeking ministerial consent to intervene, conducting and evaluating procurements, and (under certain conditions) entering into investment support contracts with proponents.

Any proposal to expand AEMO’s powers needs to consider the scope of its existing powers and risks of complications and conflicts. AEMO already has powers to assess and publish supply risks, convene industry conferences, issue notices and, as a last-resort measure, direct gas producers and other relevant participants to supply gas or provide related services, where it identifies an actual or anticipated threat to reliability or supply adequacy. AEMO also has LNG reserve powers that enable it to contract storage in the Dandenong LNG facility, procure gas to fill storage and sell gas in Victoria’s Declared Wholesale Gas Market. Additionally, in Victoria, AEMO has statutory functions as the central operator of the declared transmission system under a market carriage model, giving it direct responsibility for wholesale pricing, system operation, security and planning. The proposed LT RSA tool is also distinct from rule changes relating to the east coast gas system reliability and supply adequacy framework currently being considered by the Australian Energy Markets Commission. These rule changes are focused on how AEMO can use the existing east coast gas system trading function, including the \$35 million trading fund, to act as a supplier of last resort to address short-term reliability problems.

Complementary reforms to unlock additional gas supply should be pursued immediately

Recommendation 2: The Commonwealth and states should immediately pursue all actions to accelerate new gas supply and streamline approvals, including:

- a. working with gas project proponents to fast-track development ready gas supply
- b. streamlining approvals for new and expanded gas projects
- c. returning to annual acreage releases in state and Federal jurisdictions
- d. facilitating an increase in gas pipeline and storage capacity
- e. maintaining stable and internationally competitive tax settings.

The LT RSA tool cannot be regarded as a last and least-cost resort, so long as crucial market reforms remain outstanding. The Gas Market Review Report correctly highlighted that:

“There are a range of other regulatory frameworks which significantly impact Australia’s gas market, including Commonwealth and State and Territory frameworks relating to exploration and production licensing, taxation and royalties, environmental and safety approvals, and carbon abatement.

“While these regulations are outside the scope of the Review, these frameworks are critical to the ability of Australia’s gas markets to deliver on key policy objectives, including the principles established by the Future Gas Strategy. From a Commonwealth perspective, the Review is particularly mindful of the impact of offshore and environmental approvals laws and the need for reform to improve the efficiency of such approval processes.”⁷

The ECMC’s efforts to identify development ready gas supply and to address barriers to fast-tracking this gas to market are welcome. AEP supports the efforts of officials to compile a stocktake of gas production and infrastructure projects that could be online by 2030, to better understand the barriers they are facing and what the Commonwealth and states can do to advance them. AEP members have identified up to 140 PJ/year of additional gas supply that could be brought to market by 2030, over and above what currently has internal and government approval. This gas includes new gas projects, additional or accelerated production from existing projects, investments in processing plant or field assets that reduce the rate of production decline, and accelerating well-drilling plans.

Reform priorities to unlock new supply include:

- **Pursuing well-designed environmental laws that strengthen environmental outcomes while reducing unnecessary administrative burden and providing certainty to industry.** The explicit exclusion of oil and gas projects from certain strategic and streamlined approvals pathways undermines the efficient operation of the EPBC Act and limits the benefits of recent reforms for critical new gas supply projects. This decision has exacerbated investor certainty and is at odds with the ACCC’s warning that “slow regulatory planning and environmental approvals processes” are “an ongoing concern for gas producers” and are contributing to declining and delayed supply.⁸
- **Clarifying offshore consultation requirements for offshore petroleum and greenhouse gas storage activities.** Offshore oil and gas projects are also encountering lengthy delays, onerous consultation requirements, and increased risk of legal challenges, owing to legal ambiguity in the *Offshore Petroleum and Greenhouse Gas Storage (Environment) Regulations 2023*. In May 2024, the Future Gas Strategy called to address this as an “immediate action”.⁹ At the time of writing (February 2026), these reforms have not been progressed.
- **Encouraging exploration by restoring regular acreage releases.** Acreage releases in December 2025 by the Commonwealth and Victoria were welcome and hopefully signal the return to regular releases. Annual offshore acreage releases ceased in 2022, with exploration activities being further curtailed by limitations being placed on offshore seismic surveys, which are fundamental to gas exploration activities. These factors, coupled with the increasingly challenging operating environment for gas producers, have resulted in a significant decline in gas exploration expenditure. Geoscience Australia observes that: “Exploration activity has remained low since 2016, with current spending at only a quarter of what it was a decade ago”.¹⁰

⁷ Department of Climate Change, Energy, the Environment and Water and Department of Industry, Science and Resources, [Gas Market Review Report](#), 22 December 2025, p. 21.

⁸ Australian Competition and Consumer Commission, [Gas Inquiry 2017-2030: Interim update on east coast gas market](#), 30 June 2025, p. 55.

⁹ Australian Government, [Future Gas Strategy](#), May 2024, p. 6.

¹⁰ Geoscience Australia, [Australia’s Energy Commodity Resources 2025: Gas](#), updated 23 October 2025.

- **Facilitating an increase in pipeline and storage capacity.** To increase capacity of gas pipeline and storage infrastructure, Australian Energy Producers recommends fast-tracking approvals for gas pipeline and storage capacity increases. Federal and state governments should work to encourage and facilitate additional gas pipeline and storage projects, including by coordinating and accelerating approvals. At the same time, increasing pipeline capacity from Queensland to southern markets must go hand in hand with inducing new supply.
- **Not imposing any additional taxation on the Australian gas industry, recognising the importance of stable and internationally competitive tax settings in attracting investment in capital-intensive, long-lived projects.** Australia's *statutory* company tax rate of 30 per cent (for companies with annual turnover greater than \$50 million) is the fifth highest (alongside Costa Rica and Mexico) in the Organisation for Economic Co-operation and Development (OECD) and well above other major gas producing member states such as the United States (25.57 per cent), Canada (25.98 per cent) and Norway (22 per cent). In addition, Australia's *effective* marginal company tax rate of 28.56 per cent is the third highest in the OECD.¹¹

The modelling cited to justify the proposed intervention should be publicly released

Recommendation 3: The Department of Climate Change, Energy, the Environment and Water should release in full the modelling by ACIL Allen that is cited to justify introducing the LT RSA tool.

The consultation paper states that modelling by ACIL Allen did not quantify some major costs and risks of intervention – notably the crowding out of private investment and socialisation of private losses among consumers.¹² This evidently contributed to ACIL Allen's conclusion that the policy change would deliver net benefits in all modelled cases. While the consultation paper summarises the approach and results of the modelling, reasonable questions about assumptions, scenarios and sensitivity analysis remain to be answered. These include:

- What assumptions underpin the status quo scenario?
- Does the modelling consider the effects of additional government interventions on private investment and supply?
- What assumptions were made about the cost, timing and infrastructure requirements of alternative gas supply options?
- Does the modelling differentiate between gas used for generation, industrial users and consumers?
- Does the modelling analyse incentives to short-term contracting behaviour under different scenarios?
- Which variables were subject to sensitivity analysis?

¹¹ Organisation for Economic Co-operation and Development, "Corporate income tax statutory and targeted small business rates" (combined federal and state government) and "Effective tax rates - Corporate tax statistics", [OECD Data Explorer](#), updated 24 and 25 November 2025 (respectively).

¹² Department of Climate Change, Energy, the Environment and Water, [Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions](#), consultation paper, p. 20.

- Does the modelling take into account public announcements relating to new supply opportunities, such as Woodside's Gippsland Basin plans?

Australian Energy Producers urges the department to release the modelling in full, to support a thorough and transparent consultation consistent with established consultation conventions. Given the significance of the proposed policy change, and the advanced stage of consultation – including the release of draft legislation and rule changes – meaningful consultation must include giving industry the opportunity to scrutinise the modelling that underpins the proposal.

Extending the Gas Statement of Opportunities would have adverse unintended consequences

Recommendation 4: The ECMC should not extend the scope of reporting requirements under the GSOO, as this would entail:

- a. an onerous increase in reporting and analysis by producers for questionable benefit
- b. the risk that commercially sensitive information is deduced from the AEMO's statements
- c. the distortion of market signals and investment decisions, by presenting an "official" view of the status of individual projects and foreshadowing areas of possible intervention.

The extended GSOO would require producers to prepare and explain materially more detailed project-level information than is currently provided through the standard GSOO survey.¹³ In addition to existing production and reserves forecasts, proponents may need to substantiate assumptions relating to: Project development; anticipated timing to final investment decision and commissioning; interdependencies with other assets; key technical, commercial, regulatory or financing risks; and indicative production or development cost estimates, sufficient to support AEMO's assessment of delivered gas costs.

The market operator would publicly report and comment on individual gas supply and infrastructure projects to a greater extent than under the current GSOO framework. This enhanced public commentary may operate as a market signal regarding the use of AEMO's LT RSA tool. By identifying threats, highlighting certain projects (or combinations of projects) as potential solutions, and publishing assessments of relative cost and deliverability, the extended GSOO may be interpreted by market participants as an implicit "official view" of whether private investment is considered sufficient, or whether government intervention is probable. As noted above, such signalling may be counterproductive to encouraging additional private investment and longer-term contracting. Further, AEMO's public characterisations of project risks, interdependencies and assessments of deliverability, could inadvertently generate commercial sensitivity risks for companies.

¹³ The proposed extension of the GSOO would materially expand AEMO's analytical and signalling role in the east coast gas market, even though it is not framed as an integrated system plan. The extended GSOO would introduce a ten-year assessment of supply adequacy and reliability threats, require AEMO to identify individual supply-side projects (or combinations of projects) capable of addressing those threats, and publish AEMO's comparative assessment of those options, including considerations of cost, timing and deliverability.