

CSR Limited

Level 5, Triniti 3
39 Delhi Road
North Ryde NSW 2113

02 9235 8000

csr.com.au

ABN 90 000 001 276

15 September 2022

Ms Daniela Moraes
Senior Adviser
Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

By electronic lodgement: www.aemc.gov.au

Dear Ms Moraes,

GRC0065 DWGM interim LNG storage measures

CSR Limited (CSR) appreciates the opportunity to respond to the AEMC's consultation on the rule change DWGM interim LNG storage measures relating to AEMO contracting Dandenong LNG capacity (DLNG Rule Change).

CSR is among Australia's most trusted and recognised brand names in providing building products for residential and commercial construction, with a portfolio of leading brands. CSR operates low-cost manufacturing facilities and a strong distribution network to service customers across Australia and New Zealand. CSR is a wholesale Market Participant in both gas and electricity markets and has retail energy contracts for smaller sites.

CSR objects to the use of the expedited rule change process as the DLNG Rule Change does not meet the criteria as outlined in the National Gas Law (NGL) which states: *An urgent rule is one that, if not made as a matter of urgency, will result in imminent prejudice or threat to the effective operation and administration of a gas market operated and administered by the Australian Energy Market Operator or the supply of gas.*

The DLNG Rule Change proposal has been submitted on the basis of creating a framework on how Dandenong LNG is to be managed to improve system security and reliability. A framework is already in place and was in place throughout winter 2022.

The DLNG Rule Change is not urgent on the basis that:

- NGL 91BA(2) provides for AEMO to trade in natural gas;
- the National Gas Rules (NGR) provide for AEMO to establish an LNG reserve allowing for AEMO to contract with Dandenong LNG;
- AEMO has assessed the framework for contracting and scheduling Dandenong LNG as published in the March 2022 Intervention Report¹;
- AEMO has contracts in place with Dandenong LNG, and has adjusted the volumes of those contracts as required;
- AEMO has had sufficient time to update market procedures to ensure it is operating in a consistent manner with the NGR;

¹ AEMO, Intervention Report. <https://www.aemo.com.au/-/media/files/gas/dwgm/2022/dwgm-er-21-004-winter-2021.pdf?la=en>

- the DLNG Rule Change introduces concepts that
 - May be difficult to unwind
 - Results in AEMO taking on a more active market participant role
 - Does not address underlying market issues.

There are gas shortfalls that have been forecast for 2023 and beyond, that may result in threats to the effective operation of the DWGM, however this has been known for some time resulting in AEMO proactively contracting Dandenong LNG capacity earlier in 2022 (without the need of the DLNG Rule Change). Any rule change must be carefully considered and look for a market-led solution which considers the future of the market, rather than introducing a complex interim solution where a framework already exists.

At the Energy Ministers meeting held on 8 June 2022² Energy Senior Officials were instructed to prepare and submit an urgent rule change to assist AEMO to manage peak day gas supply shortfalls by enabling them to better utilise storage. Feedback should have been provided to the Energy Ministers that AEMO had already contracted Dandenong LNG storage capacity and AEMO had assessed the NGR to ensure an adequate framework was in place. This appears to have been a missed opportunity to address the underlying issues relating to the availability of domestic gas.

LNG Reserve – 2010 Rule Change

Prior to 2010, AEMO held capacity in the Dandenong LNG facility, as an LNG reserve³. This reserve was to ensure there would be sufficient LNG stock in the facility to maintain minimum system pressures in the event of a gas emergency. In 2010, AEMO requested a rule change⁴ (2010 Rule Change) to the NGR, removing the obligation for AEMO to hold its own LNG reserve. AEMO raised the following issues:

- The LNG storage facility was not as critical for gas emergencies as it was prior to the establishment of alternative gas supply sources;
- The NGR limit the ability of the Dandenong LNG storage provider (APA as the owner and operator of the Dandenong LNG storage facility) to offer efficient and innovative LNG storage services. This is because the NGR restrict the liquefaction services that can be provided.

AEMO stated that the importance of the Dandenong LNG storage facility for system security had reduced due to the development of new gas supply sources (e.g., Vic-NSW interconnect and the South West Pipeline) and the need for much of the existing prescriptive regime had been removed. AEMO noted it could reintroduce an LNG reserve (by negotiation) if it considered DWGM participants did not collectively contract sufficient LNG capacity for the gas market.

The AEMC noted that AEMO, the Victorian Government and Energy Safe Victoria all have powers to intervene in the case of a short term emergency.

The intent of the 2010 Rule Determination was to improve and promote efficient capital investment of the Dandenong LNG facility, as well as giving APA greater flexibility over its operation in being able to offer more services. Elements of the original (LNG reserve) mechanisms were retained, including:

- the potential for AEMO to re-establish an LNG reserve;
- the intervention powers of AEMO under NGR 343 allowing AEMO to inject from an LNG reserve.

The 2010 Rule Change final determination must be considered given:

² Energy Ministers Communique <https://www.energy.gov.au/sites/default/files/2022-08/Energy%20Ministers%20Meeting%20Communique%20-%208%20June%202022.docx>

³ The LNG reserve is defined as the LNG storage capacity to which AEMO is entitled under its LNG storage agreement.

⁴ AEMC, 2010 Rule Change. <https://www.aemc.gov.au/rule-changes/dandenong-liquefied-natural-gas-storage-facility>

- it ensured AEMO had the ability to contract LNG reserve should the need arise in the future;
- the DLNG Rule Change could diminish the need for APA to offer efficient and innovative LNG storage services.

LNG Reserve – 2021 Threat to System Security

In AEMO's 2021 Victorian Gas Planning Report⁵ (VGPR), AEMO identified there would be insufficient Dandenong LNG inventory available to manage operational responses (avoiding a curtailment situation) and the forecast inventory would be insufficient to safely manage the Declared Transmission System (DTS) during an emergency (the ability to bring the system demand down to a safe level during a curtailment). AEMO identified this issue with Dandenong LNG in early 2021, with information on the AEMO run Gas Bulletin Board being published as early as October 2019⁶ showing the decline in Dandenong LNG contracting. There has been sufficient time for AEMO to act, including the updating of market procedures and running of industry consultations – clearly indicating this is not an urgent issue.

AEMO further assessed the NGR in the March 2022 Intervention Report with the following key findings:

- the NGR adequately allows AEMO to contract Dandenong LNG;
- the NGR adequately allows AEMO to inject from Dandenong LNG;
- AEMO has the ability to recover the costs of contracting Dandenong LNG through AEMO's existing fee structure (and that it could be separately reported), and AEMO noted it may be appropriate to explore alternative fee structures in the next fee structure period;
- the importance of ensuring transparency on minimum volumes held in the tank (by AEMO and Market Participants);
- the preference for the NGR to be prescriptive on the volume AEMO should contract;
- AEMO had developed a framework for the costs associated with injecting and withdrawing gas from Dandenong LNG;
- clarifying it was appropriate for the LNG reserve volumes not to appear in the bid stack;
- the Ownership Rules needed a minor update (something within AEMO's control to do).

AEMO also presented the key findings at the Gas Wholesale Consultative Forum⁷ on 17 March 2022, seeking industry feedback. AEMO noted it would only contract to satisfy the emergency situation (i.e., where curtailment is occurring) but there is nothing in the NGR limiting AEMO to this scenario, and as a prudent operator, ensuring curtailment is minimised should also be considered.

The rule changes AEMO identified through its assessment (prescriptive volumes, explicit requirements of minimum volumes in the tank, costs of injections/withdrawals) are all changes that could be made, but aren't required in order for AEMO to contract, and subsequently inject, Dandenong LNG. AEMO also has the ability to clarify (without the need of a rule change) it's methodology for determining the volumes it requires and whether this will be additive to Market Participant volumes.

AEMO has a framework in place it used throughout winter 2022 and can be used in the future without the need for any rule change.

Summary

The issue of low volumes contracted at Dandenong LNG was identified more than 18 months ago and AEMO has had sufficient time to act and contract Dandenong LNG (as it already has done) and can

⁵ AEMO, 2021 VGPR. https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2021/2021-victorian-gas-planning-report.pdf?la=en

⁶ AEMO, Intervention Report, Table 2. <https://www.aemo.com.au/-/media/files/gas/dwgm/2022/dwgm-er-21-004-winter-2021.pdf?la=en>

⁷ AEMO, GWCF. https://aemo.com.au/-/media/files/stakeholder_consultation/working_groups/wholesale/gwcf/2022/meeting-34-papers.zip?la=en

update the necessary market procedures to ensure transparency and a clear framework is in place – aligned to the NGR.

It appears the Energy Ministers may not have been aware AEMO already has these powers that are now being asked for, and that AEMO had already used these powers to contract Dandenong LNG capacity. An interim rule change is not needed as an interim solution is already in place, a solution that sits within the framework of the existing NGR – as had been previously contemplated by both the AEMC and AEMO.

The DLNG Rule Change needs to be carefully considered and must focus on the enablement of long-term market-led solutions. As it stands the DLNG Rule Change appears to have unintended consequences including

- The likelihood of discouraging Market Participants from buying Dandenong LNG capacity;
- AEMO being in a situation where it is responsible for setting the price caps (through the current Parameter consultation) and then effectively bidding in gas at this price cap and then choosing to schedule itself ahead of others in the bid stack⁸.

Careful analysis of the options available to AEMO well in advance of each winter should be considered rather than rushing through a rule change with unknown and untested consequences. Winter 2022 was likely to have been one of the most challenging on record for the DWGM, however AEMO appears to have managed without the need of any out-of-merit-order Dandenong LNG, and it appears only small volumes of market-scheduled Dandenong LNG were injected. A more thorough assessment of the longer-term market framework is required including addressing the availability of domestic gas supply.

For a rule change to be considered urgent, it must meet the criteria that there is a gap or flaw in the NGR that will result in an imminent threat to the DWGM. Both the AEMC (through the 2010 Rule Change) and AEMO (through its assessment of the NGR) have examined this issue and provided clear guidance that AEMO can contract capacity at Dandenong LNG, and furthermore AEMO has implemented an interim solution that can be readily used in the future, therefore there is no imminent threat.

CSR appreciates AEMO may prefer for the NGR to be entirely explicit, however it is clear that the framework is in place, through the NGL and NGR, and AEMO has the ability to update its own market procedures where a gap is perceived in these. Elements of the DLNG Rule Change require careful consideration, including the ongoing implications beyond the interim period, and therefore should not be rushed.

It isn't clear the national gas objective will be met by the DLNG Rule Change given the potential impacts on price, the uncertainty of whether the changes will assist with safety and security and noting any supply from Dandenong LNG is limited. More permanent solutions are required rather than introducing further market risk into what is already a challenging environment to operate.

CSR supports an approach that is assessed on merits, gives careful consideration of the options (both existing and new) and addresses the underlying problems. It is clear the DLNG Rule Change is not urgent and further work is required. If you would like to discuss this submission, please contact me at rflood@csr.com.au.

Your Sincerely,

Robbie Flood
Energy Manager, CSR Limited

⁸ As noted in many AEMO Intervention Reports, the scheduling of Dandenong LNG is out-of-merit-order on the basis of a perceived threat.