

Australian Energy Markets Commission (AEMC)

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29 September 2022

Submission to AEMC GRC0065 National Gas Amendment (DWGM): Consultation Paper

The Australian Energy Council welcomes the opportunity to make a submission to the AEMC GRC0065 National Gas Amendment (DWGM): Consultation Paper (Consultation Paper).

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC is supportive of measures to minimise the levels of risk relating to safety, system security and supply in the DWGM. The AEC also believes in market solutions wherever possible as these will generally provide the most efficient outcomes and minimise costs to consumers within the constraints of acceptable levels of risk. However, as noted in the Consultation paper unlike electricity there is no formal reliability standard for gas. Hence, there is no assessment of the cost versus risk for overlooking the gas market and no measure of the value that consumers and businesses place on this trade off.

The Consultation Paper describes what may be the cause of the reduction in LNG storage levels. In summary, following consultation with market participants APA changed its contracting model in December 2020 and since then LNG storage levels have halved. According to the ACCC, this has resulted in the costs of LNG storage increasing by 44-46 per cent.¹ Furthermore, the ACCC expressed concerns about the market power of the Dandenong LNG Facility (**DLF**) and recommended in January 2022 that “consideration should be given implementing a third-party access regime” for the DLF.

DWGM market participants use the DLF to manage their risks and it appears that under the new contracting model (where vapourisation rights are firm), they can manage their risks with less LNG storage.

The AEC supports the proposed assessment framework and agrees with the problem statement and notes the AEMC’s statement that it is not possible to implement a reliability standard in time for winter 2023. The AEC also believes that if nothing is done to resolve the problem nothing is likely to change with respect to DLF storage levels.

The proposed solution will result in the DLF being at capacity by winter 2023. However, it is a significant and prescriptive market intervention which this is considered necessary due to the time constraints associated with filling the DLF in time for winter 2023. The AEC understands the logic for expediting this rule change however it may be worth extending the consultation period in a similar manner to the electricity market administered price cap rule change (where a directions paper has been released), as this would allow for further consultation with stakeholders and reduce the risk of unintended consequences. This may enable consideration of a less interventionist (ie, non-rules based) solution. This could involve the AEMC convening discussions with participants to test whether there are alternative effective solutions that involve less AEMO

¹ Consultation Paper, p.7.

intervention. Furthermore, the AEMC could provide further clarity on matters such as cost recovery, how AEMO would use the capacity (e.g. is it for security and reliability) and whether bidding the capacity at VoLL is the best approach to ensure a functioning market.

With respect to the proposed rules, AEMO should hold LNG storage at a level that it believes is what is necessary to ensure safety, system security and supply security. The reasoning for AEMO's decision in this matter should be made public.

The AEC supports AEMO relinquishing capacity if another market participant is seeking LNG capacity and that AEMO acts a supplier of last resort. With respect to AEMO disposing part of its LNG stock at the end of the winter period: if it reduces the cost of AEMO's contracting and does not jeopardise system security, safety and supply then the AEC would support this approach.

The approach to cost recovery is important because if it is not correctly targeted it may undermine the current incentives for participants to hold LNG storage if AEMO is going to charge them irrespectively of what LNG storage they have contracted for. It is important that the rule change does not distort market behaviour while also delivering safety, system security and supply in the DWGM.

Any questions about our submission should be addressed to Peter Brook, by email to peter.brook@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P Brook', is placed on a light yellow rectangular background.

Peter Brook

Wholesale Policy Manager

Australian Energy Council