

22<sup>nd</sup> September 2022

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Daniela Moraes

Australian Energy Market Operator

Reference: GRC0065

Dear Daniela,

### **RE: DWGM interim LNG storage measures (Reference: GRC0065)**

Brickworks Building Products Pty Limited (“Brickworks”) welcomes the opportunity to comment on the DWGM interim LNG storage measures consultation paper (Reference: GRC0065).

Brickworks is Australia’s leading manufacturer of building products and is the owner of Austral Bricks. In Victoria, Brickworks produces 170 million bricks each year at our Austral Bricks plant located in Wollert. Brickworks is a market participant in the Victorian declared wholesale gas market (DWGM), with our Wollert plant consuming circa 1 PJ of natural gas each year.

Brickworks supports the intent of the rule change lodged by the Victorian Minister for Energy, Environment and Climate Action that AEMO acts as a service provider of last resort for the Dandenong LNG facility (DLNG) for the purpose of addressing potential safety and system security threats in the DWGM. We have provided detail comments and suggestions for improvement to the proposed technical implementation in the stakeholder feedback template.

If you wish to discuss any aspect of this submission further, please contact the undersigned.

Kind Regards,



Melissa Perrow  
General Manager Energy



# DWGM INTERIM LNG STORAGE MEASURES

## STAKEHOLDER FEEDBACK TEMPLATE

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The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

### SUBMITTER DETAILS

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<b>ORGANISATION:</b>	Brickworks Building Products Pty Ltd
<b>CONTACT NAME:</b>	Melissa Perrow
<b>EMAIL:</b>	Melissa.perrow@brickworks.com.au
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<b>DATE</b>	12 September 2022

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### PROJECT DETAILS

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<b>NAME OF RULE CHANGE:</b>	DWGM interim LNG storage measures
<b>PROJECT CODE:</b>	GRC0065
<b>PROPONENT:</b>	Victorian Minister for Energy, Environment and Climate Action
<b>SUBMISSION DUE DATE:</b>	29 September 2022

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## CHAPTER 4 – ASSESSMENT FRAMEWORK

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| 1. Is the proposed assessment framework appropriate for considering the rule change request? Are there any other matters that should be included? | <ul style="list-style-type: none"><li>• We are supportive of AEMO acting as a service provider of last resort for the Dandenong LNG facility to address potential system security issues.</li><li>• The criteria should include minimising costs to consumers, minimising the market risk of DWGM market participants and not disincentivising market participants from entering into contracts at the Dandenong LNG facility.</li></ul> |
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## CHAPTER 5 – ISSUES FOR CONSULTATION

### PROBLEM STATEMENT

2. Do you agree with each of the problems identified in the rule change request (noting the delineation between the safety and system security related problems and the reliability related problems)? If so, do you agree that they need to be addressed prior to winter 2023?	<ul style="list-style-type: none"><li>• We agree that the problem statement is using the Danenong LNG facility to manage safety and system security risks. We disagree with the inclusion of reliability into the problem statement. If AEMO if required to purchase gas, storage or transport to address reliability (ie potential supply shortfalls) then the net result is that this action would reduce gas supply and services available to for purchase by market participants. Market participants are incentivised to purchase gas, storage, transport and other products to manage their financial risk exposure to the market price and other market costs. The recent potential supply shortfalls during winter 2022 resulted from a lack of gas availability, not a lack of market participants willing to purchase gas. Therefore, if AEMO was required to purchase gas and storage to address potential reliability issues, the net impact is to worsen market participants' financial price exposure by further shorting them of gas and storage they are desperately attempting to purchase. Requiring AEMO to purchase gas and storage for reliability purposes represents an unacceptable additional risk to market participants.</li></ul>
3. What do you think the underlying source of the problem is (i.e. why isn't the Dandenong LNG facility being filled in the way it used to and why aren't market participants responding to AEMO's threat to system security notices)?	<ul style="list-style-type: none"><li>• The consultation paper clearly states that the underlying reason market participants have stopped procuring the services needed by the market directly relates to APA seeking monopolistic rents by effectively increasing costs by 44-46% (as identified by the ACCC). This level of rent-seeking behaviour suggests the Dandenong LNG facility should be a regulated asset to protect consumers from unjustifiable additional costs. If AEMO is required to purchase services from the Dandenong LNG facility, consumer cost protections will be needed to prevent AEMO from meeting this obligation at any cost demanded by APA.</li></ul>
4. How material do you think the identified problems are and what impact could they have on the following (distinguishing where possible between the safety and system security related problems and the reliability related problems):	

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a. the supply of gas in Victoria?	<ul style="list-style-type: none"><li>In the absence of AEMO developing a new gas storage facility or new gas production facility, AEMO does not have any capacity to resolve reliability issues. AEMO being required to purchase gas, storage, transport or any other service only worsens the financial risk of market participants (refer to comment #2)</li></ul>
b. the operation of the DWGM?	
c. the safety of the infrastructure?	
5. What do you think would happen if nothing is done to address the identified problems?	<ul style="list-style-type: none"><li>New gas supplies, diversion of spot LNG gas to the domestic market, and possibly new gas storage facilities, are needed to address forecast long-term reliability issues at the lowest cost to domestic consumers. None of these solutions relates to AEMO as the market operator of the gas markets.</li></ul>
<b>PROPOSED SOLUTION</b>	
6. Do you think the proposed solution is the most appropriate way to address the identified problems, or is there another more effective solution that could be implemented prior to winter 2023 (including non-rules based solutions)?	<ul style="list-style-type: none"><li>A greater level of transparency and public consultation is required on the level of LNG needed to be contracted by AEMO each year. AEMO should be obligated to provide detailed justification on its assessment of the LNG capacity required to meet potential system security issues that are above the level contracted by market participants. We do not agree that AEMO should be required to purchase up to 100% of the LNG capacity every year, as this represents additional costs to consumers for no additional benefit.</li><li>We support Shell's submission that proposes a process that AEMO would be required to contract for storage and supply of gas to achieve stored gas at the specified "AEMO System Security Partition Volume" level for the next 12 month period on a best endeavours basis by 1st April each year. AEMO should be restricted from restocking used gas during the period 1 May to 30 September where the actual "AEMO System Security Partition Volume" is greater than 80% of the nominated level. ie if nominated level was 300 TJ, AEMO could only procure gas during the period 1 May to 30 September to achieve a level of 240 TJ's. This takes into account that AEMO will almost certainly apply a "conservative buffer" in setting their requirements.</li></ul>
7. Are there any measures in the proposed solution that you think are not required, or are there additional measures that you think are required?	<ul style="list-style-type: none"><li>AEMO should not bid its LNG into the market in the same way that market participants place bid to schedule gas injections. This may result in AEMO setting the market price at \$800 and results in market participants incurring net additional costs or net additional revenue as a result of AEMO injecting LNG that was bid at \$800 depending on whether they were long or short in the market at the time. This is an unacceptable outcome to market participants and is entirely unnecessary. The risk and costs to market participants occur due to the complexity and differences of allocation between market participants for cost recovery via uplift payments and linepack account balances. It is unnecessary because AEMO should only inject infrequently to avoid a potential system security issue as a last resort. While AEMO will need to schedule the injections as a last resort, it could do this outside of needing to bid as a market participant would. The fixed costs for the LNG service could be recovered via participant fees, however any variable costs incurred from injecting LNG or restocking LNG levels should be recovered using a new causer-based cost allocation. This would provide greater transparency to market participants on the actual costs incurred by AEMO for using its LNG and avoid any unintended cost impact on market participants.</li></ul>

8. Does the proposed rule properly reflect the solution described in the rule change request, or are amendments required?	<ul style="list-style-type: none"><li>AEMO's LNG target should be set as the amount AEMO reasonably believes is required, after considering LNG contacting levels by market participants, for the winter period. We do not know why AEMO would be required to procure "the highest level reasonably possible" given this obligates AEMO to maximise the cost which is passed through to consumers for no additional benefits above what is required for the forecasted security needs. If market participants have procured sufficient levels of storage at the facility to meet the forecast system security risk, then AEMO does not need to procure an additional storage. We also concerned around the monopolistic rent-seeking behaviour of APA, which indicates that consumer cost protection will need to be added to ensure AEMO does not meet its obligation to contract for LNG capacity at any cost.</li></ul>
9. Do you think the proposed solution:	
a. is targeted, fit for purpose and proportionate to the issues it is intended to address?	
b. provides for predictability and stability in regulatory arrangements?	
c. provides for simplicity and transparency in regulatory arrangements?	<ul style="list-style-type: none"><li>The current rule is not simplistic or transparent. Refer to the above comments.</li></ul>
<b>AEMO AS BUYER OF LAST RESORT</b>	
10. Do you agree with the proposals that AEMO should:	
a. act as buyer of last resort for the Dandenong LNG facility for the winter months?	<ul style="list-style-type: none"><li>We agree AEMO should be a buyer of last resort for Dandenong LNG but only to the extent needed for potential system security events that are above the existing contracted levels of market participants.</li></ul>
b. procure all of the uncontracted storage capacity available for the winter months?	
c. maintain a target level of LNG stock based on the highest level reasonably possible, or such other level determined by AEMO and approved by the Victorian Minister?	<ul style="list-style-type: none"><li>Refer to response for Question 8.</li></ul>
11. Does the proposal to allow AEMO to relinquish storage capacity if another market participant seeks access to this capacity address the risk that it could crowd out market participants, or would this still be a risk?	<ul style="list-style-type: none"><li>We agree it is reasonable that APA should be able to sell services to market participants and issue contract amendments that relinquish AEMO's contracted storage levels. This minimises the socialised costs being passed through to all consumers and it allows market participants to manage their risk within their risk frameworks.</li></ul>

12. Do you agree with the proposal that AEMO should only be able to on-sell LNG stock to a market participant as part of the relinquishment of storage capacity? If so, do you think this should be specified in the NGR, or could it be left to the LNG reserve procedures?	<ul style="list-style-type: none"><li>AEMO should not be reselling any services. APA should manage all contracting for the facility. APA can issue AEMO with a contract amendment to reduce the level of contracted storage capacity where a market participant is directly contracting with APA for that quantity. As a market operator, it is inappropriate for AEMO to manage any contractual arrangement for storage services or gas supply with market participants.</li></ul>
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#### **AEMO AS SUPPLIER OF LAST RESORT**

13. Do you agree with the proposal that AEMO should act as supplier of last resort from the Dandenong LNG facility and how this has been reflected in the principle set out in the proposed rule?	<ul style="list-style-type: none"><li>Noting our concerns expressed in the above comments, we do see it as appropriate for AEMO to manage system security risk and the emergency system shutdown process by procuring adequate LNG services for the DTS. We do not agree that AEMO has a role in procuring gas services or gas supply for reliability purposes.</li></ul>
14. Do you think that the proposed rule should be amended to allow AEMO to dispose of part of the LNG stock at the end of the winter period?	<ul style="list-style-type: none"><li>Yes, we agree it would avoid AEMO recovering unnecessary costs which are passed through to consumers for services not required. This gas could be injected into the market at zero cost, as we suggest the cost for restocking should have already been recovered under a new causer pay cost recovery process.</li></ul>
15. Do you agree that AEMO should be able to use its LNG stock for reliability purposes? If so, should it be clarified in the NGR?	<ul style="list-style-type: none"><li>No, we do not agree. Refer to our prior comments.</li></ul>

#### **CONTRACTUAL ARRANGEMENTS**

16. Do you agree with:	
a. the proposed treatment of the LNG storage provider and AEMO's LNG storage agreement in the proposed rule and transitional rules?	<ul style="list-style-type: none"><li>We note that there appears to be no restriction on how APA contracts LNG services or the pricing it will charge. This represents a significant risk to consumers who will ultimately pay the cost incurred by AEMO. There needs to be a consumer cost protection written into the rule to ensure AEMO is not being obligated to contract for LNG services at any cost.</li></ul>
b. the obligations that the proposed rule and transitional rules place on the LNG storage provider and AEMO in relation to contracting?	

#### **COST RECOVERY**

17. Do you agree with the proposals that AEMO should be required to recover:	<ul style="list-style-type: none"><li>Refer to comments for Question 7.</li></ul>
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a. storage capacity costs through participant fees?	<ul style="list-style-type: none"><li>Yes, we agree fixed costs related to LNG capacity could be passed through to market participants via participant fees.</li></ul>
b. the losses/proceeds arising from the use of the LNG stock through the linepack account?	<ul style="list-style-type: none"><li>No we do not agree. Variable costs related to the injection of LNG or restocking of LNG should be passed through to market participants using a new transparent cost allocation on a causer pays basis.</li></ul>
18. Is the proposed rule sufficiently clear on how all the costs that AEMO incurs (net of any proceeds it receives) are to be recovered, or are there some costs (or proceeds) that are not currently addressed?	<ul style="list-style-type: none"><li>AEMO should not be bidding or incurring any net proceeds. The concept of AEMO bidding into a market it operates is a conflict of interest of its primary duty to operate a market. It is unjustifiable that AEMO could manipulate the market price or inflict significant financial market costs on market participants through bidding in a market it operates. AEMO only needs to schedule its LNG as a last resort and recover the costs it incurs from market participants. Under no circumstances should AEMO operators be misguided into believing they are trading gas and earning profit in a market they operate, oblivious to the financial risk and market costs inflicted on market participants.</li></ul>
19. Do you consider that either of the proposed cost recovery mechanisms affects the incentive market participants have to contract their own LNG storage capacity? If so, what is the impact on those incentives?	
<b>TRANSPARENCY AND ACCOUNTABILITY</b>	
20. Does the proposed rule change provide for sufficient accountability and transparency of AEMO's actions as buyer and supplier of last resort, or are additional measures required?	<ul style="list-style-type: none"><li>No, additional measures are required. Refer to comment for Question 6.</li></ul>
<b>TRANSITIONAL ARRANGEMENTS</b>	
21. Are any other transitional arrangements required to accommodate the implementation of the proposed solution?	
<b>TERM OF THE PROPOSED RULE CHANGE</b>	
22. Do you agree with the proposed term of the rule change from 2023 to 2025?	
23. Do you think the proposed solution would affect the implementation of any other solutions that may be considered as part of the broader reform work being undertaken:	

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a. on security and reliability measures?	
b. on third-party access to storage facilities?	
<b>COSTS AND BENEFITS</b>	
24. What do you think the direct and indirect costs of the proposed solution are likely to be? Are these costs likely to be proportionate to the problems they are intended to address?	<ul style="list-style-type: none"><li>• We have no idea, given the provided LNG facility agreement has redacted prices. As mentioned previously, we are concerned at the monopolistic rent-seeking behaviour of APA and the rule needs to provide consumer cost protections to avoid AEMO being required to contract for capacity at any cost.</li></ul>
25. What do you think the benefits of the proposed solution are likely to be?	
26. Will the proposed solution provide for the safe, secure and reliable provision of gas at an efficient cost to consumers?	<ul style="list-style-type: none"><li>• We agree AEMO acting as a last resort provider of LNG is needed to address potential system security issues. It is not AEMO's role to address reliability issues and, in any case, it is incapable of addressing reliability issues unless it developed a new gas production facility or new gas storage facility.</li></ul>
27. What, if any effect, will the proposed solution have on:	
a. the incentive market participants have to contract to use the Dandenong LNG facility?	<ul style="list-style-type: none"><li>• Refer to comments to Question 6. Market participants should be given an opportunity to contract for LNG capacity prior to AEMO determining whether it needs to buy any additional capacity. AEMO should only be required to contract for capacity up to the level necessary to meet potential system security issues.</li></ul>
b. the allocation of risks across the market (i.e. will risks be allocated to those best placed to manage them)?	<ul style="list-style-type: none"><li>• No. The proposal for AEMO to bid LNG into the market significantly increases risks and potential costs to market participants for no benefit. This is avoided if AEMO only schedules its LNG for injection as a last resort but does not bid into the market as a normal market participant would. Refer to comments for Question 7.</li></ul>
c. the efficient operation of the DWGM?	
d. The efficiency of investment in, operation and use of the Dandenong LNG facility and any other DWGM infrastructure?	<ul style="list-style-type: none"><li>• It is inefficient to require AEMO to contract LNG capacity above the level it forecasts is needed for the potential system security threat.</li></ul>
28. What, if any, effect will the proposed solution have on the prices paid for gas in Victoria?	<ul style="list-style-type: none"><li>• The proposal for AEMO to bid its LNG into the DWGM risks AEMO setting the market price at \$800. We hope this is an unintended consequence not previously recognised. AEMO holding LNG capacity for potential system security threats is unlikely to have any impact on prices paid for gas in Victoria. The cost incurred by AEMO for the LNG service will be passed through to consumers, therefore AEMO should only purchase what additional capacity is required for the potential system security threat above that already contracted by market participants and there should be cost protection to ensure AEMO contracts at a reasonable cost (not at any price being sought by APA).</li></ul>