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29 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 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 supports AEMO having the right set of "tools in the tool box" in order to fulfil its obligations in managing the operation and security of the declared transmission system. Any change to the current rules must be fit-for-purpose and not introduce any unintended consequences. While Dandenong LNG is seen as strategically important to AEMO, it should not be considered as the only solution for system security, and other options must be assessed such as demand-side and supply profiling options.

As published in the March 2022 Intervention Report¹, AEMO assessed the framework for contracting and scheduling Dandenong LNG, and identified the minimum required regulatory changes to ensure there was no ambiguity in the framework. The changes AEMO identified through its assessment (prescriptive volumes, transparency, explicit requirements of minimum volumes in the tank, costs of injections/withdrawals) are all changes to the rules that could be made but aren't explicitly required.

The DLNG Rule Change goes far beyond the minimum changes required and CSR is concerned that the DLNG rule change:

- Will result in significant additional costs to the market;
- Does not address the underlying issues of gas supply availability;
- Has the potential to introduce unintended outcomes;
- Results in AEMO taking on a more active market participant role.

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 also highlights that there are functions within AEMO that may be better suited to the AEMC (parameter review) and AER (setting and determination of fees) to provide the market with confidence that there is an appropriate level of oversight and transparency, avoiding any perceived conflicts of interest. To the extent that AEMO is trading in natural gas then it should be clarified in the rules that these activities must be ring-fenced within AEMO.

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 only small volumes of market-scheduled Dandenong LNG were injected. This highlights the likelihood that the DLNG Rule Change will result in costs outweighing benefits and indicates AEMO already has sufficient mechanisms in place to manage system security.

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. A more thorough assessment of the longer-term market framework is required including addressing the availability of domestic gas supply.

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. Permanent solutions are required rather than introducing interim measures that create market risk into what is already a challenging environment to operate.

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. If you would like to discuss this submission, please contact me at rflood@csr.com.au.

Your Sincerely,

Robbie Flood
Energy Manager, CSR Limited



DWGM INTERIM LNG STORAGE MEASURES STAKEHOLDER FEEDBACK TEMPLATE

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

ORGANISATION: CSR Limited

CONTACT NAME: Robbie Flood

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DATE: 29/09/2022

PROJECT DETAILS

NAME OF RULE CHANGE: DWGM interim LNG storage measures

PROJECT CODE: GRC0065

PROPONENT: Victorian Minister for Energy, Environment and Climate Action

SUBMISSION DUE DATE: 29 September 2022

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CHAPTER 4 – ASSESSMENT FRAMEWORK

<p>1. Is the proposed assessment framework appropriate for considering the rule change request? Are there any other matters that should be included?</p>	<p>CSR is of the view that an assessment first needs to be made on whether the rule change is necessary. To the extent the AEMC progresses with the rule change, a review of transparency and accountability should also be included in the assessment to ensure</p> <ul style="list-style-type: none">• costs to users are minimised• modelling assumptions are independently verified• actual use of emergency powers is independently reported on.
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CHAPTER 5 – ISSUES FOR CONSULTATION

PROBLEM STATEMENT	
<p>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?</p>	<p>CSR agrees the Dandenong LNG (DLNG) facility can serve to manage on-the-day system security, as the location of the facility is useful in addressing real-time events. DLNG does not address the underlying issue of a shortfall of gas available to the markets.</p> <p>CSR doesn't agree with each of the problems identified in the rule change request. AEMO² and the AEMC³ have both reviewed this issue and a sufficient framework is in place. To the extent that AEMO has contracted for safety (emergency) and not for system security (threats to system security) appears to be a choice rather than based on restrictions placed on it through the NGL or NGR.</p> <ul style="list-style-type: none">• NGL 91BA(2) provides for AEMO to trade in natural gas• The NGR provide for AEMO to establish an LNG reserve allowing for AEMO to contract with Dandenong LNG• The intervention powers of AEMO under NGR 343 allow AEMO to inject from an LNG reserve. <p>AEMO did request feedback through the GWCF on the volumes that would be contracted, and this is an appropriate way of seeking feedback without needing any rule changes.</p> <p>CSR is of the view that AEMO has the powers that it requires, and this is an unnecessary rule change that does not focus on longer term market design, nor does it address the underlying gas shortfalls that have been forecast.</p>

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

³ AEMC, 2010 Rule Change. <https://www.aemc.gov.au/rule-changes/dandenong-liquefied-natural-gas-storage-facility>

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<p>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)?</p>	<p>As with any commercially operated facility, contracted levels will typically be reflective of the competitiveness and value-gain from that service. This rule change is likely to lead to less contracting at Dandenong LNG.</p> <p>AEMO's use of the call for a response asking for participants to take out contracts or asking for participants to adjust their bids to lower price bands appears to be inconsistent with the intent of the rules, and it's not clear that AEMO should be signalling to participants on how their bids should be structured or what contracts participants should have in place.</p> <p>NGR 341(2) and NGR 343(1) focuses on</p> <ul style="list-style-type: none">• gas that is not currently bid into the market• changes to maintenance• non-firm gas• off-spec gas• curtailment• AEMO's LNG reserve <p>In AEMO's threat to system security notice, issued on 29 March 2021, it's not clear that any threat existed. The 2021 VGPR identified that there was insufficient contracted storage capacity at Dandenong LNG to limit the likelihood of curtailment, not that there was an increased probability of a major unplanned interruption to supply⁴.</p>
<p>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):</p>	
<p>a. the supply of gas in Victoria?</p>	<p>Given AEMO's other powers and what was observed through winter 2022 its difficult to agree that the identified problems are material for most participants. DLNG may be able to assist in an emergency curtailment situation to bring the system down to a safe level of operation, however it's not clear if this is true or if it has been accurately modelled. DLNG is not going to assist daily with supply of gas into Victoria.</p>

⁴ AEMO, Intervention Report, <https://www.aemo.com.au/-/media/files/gas/dwgm/2022/dwgm-er-21-004-winter-2021.pdf?la=en>

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b. the operation of the DWGM?	DLNG can provide limited use to support the operation of the DWGM, but there are also other potential solutions that should be considered.
c. the safety of the infrastructure?	The modelling assumptions need to be independently verified and tested with the various distribution networks.
5. What do you think would happen if nothing is done to address the identified problems?	AEMO would continue to contract volume at DLNG and would also utilise its powers to manage the system to ensure system security (as demonstrated through 2022). Other measures are required to address the forecast shortfall of gas, once these measures have been implemented there should be little requirement for AEMO to separately contract for gas.
PROPOSED SOLUTION	
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)?	<p>CSR is of the view that</p> <ul style="list-style-type: none"> • A high level of transparency and industry consultation must be included in the solution • AEMO should only contract to the extent required and not take on the full capacity of the tank • AEMO should not be able to set the market price, the market should be administered if AEMO is injecting its own gas • The curtailment guidelines should be further enhanced to curtail those loads that are not sufficiently providing gas into the market <p>Additional consideration needs to be given such as</p> <ul style="list-style-type: none"> • Running a process for demand response • Paying for supply profiling • Removing any perceived conflicts of interest, such as the AEMO run price parameter review being passed over to the AEMC. Given the proposed rule change AEMO will be 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 stack⁵. • Ensuring there is adequate ring-fencing within AEMO to the extent it is trading in natural gas. • The appropriateness of the fees and cost structure being undertaken, or at least approved, by the AER
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?	If the proposed solution is implemented, it should be with additional measures to ensure the process is robust and transparent. The modelling must be independently reviewed and verified, and AEMO should only be contracting the minimum volume necessary.

⁵ As noted in many AEMO Intervention Reports, the scheduling of Dandenong LNG is typically out-of-merit-order on the basis of a perceived threat.

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	<p>To the extent that AEMO utilises its LNG reserve, an independent review should be undertaken that examines the event, including AEMO's forecasts and processes.</p> <p>AEMO should not be bidding into the market and the mechanisms for injection need to be reviewed.</p>
8. Does the proposed rule properly reflect the solution described in the rule change request, or are amendments required?	The proposed rule should take a more balanced view, with AEMO only contracting what is necessary and ensuring unnecessary costs are minimised.
9. Do you think the proposed solution:	
a. is targeted, fit for purpose and proportionate to the issues it is intended to address?	The proposed solution needs to be scaled back to what is necessary. AEMO addressed this through their assessment of the rules and presented the findings to the GWCF ⁶ in March 2022.
b. provides for predictability and stability in regulatory arrangements?	It's an interim measure that is being rushed in therefore it is more likely to result in unintended consequences and uncertainty of the future regulatory landscape.
c. provides for simplicity and transparency in regulatory arrangements?	No, more needs to be done to ensure transparency. This rule change introduces unnecessary levels of complexity.
AEMO AS BUYER OF LAST RESORT	
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?	Not if there are other options available, and only to the extent required.
b. procure all of the uncontracted storage capacity available for the winter months?	No, not if independent analysis indicates this isn't required.
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?	No, there is little evidence to suggest this is required. Winter 2022 was exceptional, however DLNG was barely utilised.
11. Does the proposal to allow AEMO to relinquish storage capacity if another market participant	

⁶ AEMO, March GWCF. https://aemo.com.au/-/media/files/stakeholder_consultation/working_groups/wholesale/gwcf/2022/meeting-34-papers.zip?la=en

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seeks access to this capacity address the risk that it could crowd out market participants, or would this still be a risk?	
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?	Despite the NGL giving AEMO the ability to trade in natural gas, AEMO should not be in a situation where it is setting market prices or competing with other market participants, which is possible if other participants are looking to relinquish their capacity and AEMO has a more competitive rate. On the basis that the rule change proceeds, relinquishment must be specified in the NGR (otherwise this is contradictory to the rule change itself where AEMO is suggesting they don't have enough clarity in the rules). AEMO's trading of natural gas should be ring-fenced.
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?	AEMO's role in an emergency is adequately specified in the current rules. To the extent that AEMO has contracted gas then this should be supplied as a last resort.
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?	CSR agrees that this should be considered to reduce costs to market participants, however the timing and volumes need to be factored into the rules to ensure there are no adverse market outcomes. This approach could also result in higher costs given AEMO will be buying/selling at prescribed times which participants may be able to take advantage of.
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?	The rules already provide enough clarity where AEMO can use its LNG reserve in response to a threat to system security.
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?	
b. the obligations that the proposed rule and transitional rules place on the LNG storage provider and AEMO in relation to contracting?	

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COST RECOVERY	
17. Do you agree with the proposals that AEMO should be required to recover:	
a. storage capacity costs through participant fees?	Yes.
b. the losses/proceeds arising from the use of the LNG stock through the linepack account?	No, this should be based on causer pays to the extent possible, without introducing unintended risk.
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?	CSR is of the view that AEMO should not be bidding gas into the market. Will AEMO be able to claim compensation payments from the market?
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?	While some participants will continue to contract DLNG, it is likely that the socialisation of DLNG costs will result in a lower level of overall market participant contracting.
TRANSPARENCY AND ACCOUNTABILITY	
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?	Additional measures are required including independent reviews of the: <ul style="list-style-type: none">• Modelling that AEMO uses to determine the required level of LNG stock that it will contract.• Use of DLNG stock when interacting with the market.
TRANSITIONAL ARRANGEMENTS	
21. Are any other transitional arrangements required to accommodate the implementation of the proposed solution?	
TERM OF THE PROPOSED RULE CHANGE	
22. Do you agree with the proposed term of the rule change from 2023 to 2025?	CSR would prefer other measures to be implemented that address the underlying issues facing the market.

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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:	
a. on security and reliability measures?	
b. on third-party access to storage facilities?	
COSTS AND BENEFITS	
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?	The potential costs should have been provided as part of the rule change proposal. It is likely that these costs will be very high and disproportionate to the problems they are intended to address (using 2022 as an example where DLNG was barely utilised despite the extraordinary events facing the DWGM). Given this rule change has been permitted to use the expedited process, it's also likely the final rule change will result in unintended costs.
25. What do you think the benefits of the proposed solution are likely to be?	The only benefit being proposed is additional system security for what appears to be a small percentage of the time, if at all. The arguments put forward for this DLNG Rule Change appear to contradict the arguments that were put forward in the 2010 DLNG rule change, and the final determination of the 2010 rule change must be addressed given: <ul style="list-style-type: none"> • The 2010 rule change ensured AEMO had the ability to contract LNG reserve should the need arise in the future; • The current rule change could diminish the need for APA to offer efficient and innovative LNG storage services.
26. Will the proposed solution provide for the safe, secure and reliable provision of gas at an efficient cost to consumers?	Not in a way that can't already be done. It is likely to result in a higher cost to consumers.
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?	
b. the allocation of risks across the market (i.e. will risks be allocated to those best placed to manage them)?	Not necessarily. An unplanned supply interruption may result in AEMO dispatching their gas into the market which could <ul style="list-style-type: none"> • displace lower priced gas from being dispatched • result in those with contracts where the supply is interrupted facing very high costs, depending on how the cost allocation is determined.
c. the efficient operation of the DWGM?	

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d. The efficiency of investment in, operation and use of the Dandenong LNG facility and any other DWGM infrastructure?	It is not unrealistic that DLNG has an unexpected and prolonged forced outage, or in the absence of investment becomes uneconomic to maintain, therefore other solutions need to be considered and a carefully considered transition plan needs to be in place.
28. What, if any, effect will the proposed solution have on the prices paid for gas in Victoria?	It's likely the proposed solution will distort the price signals in the market, given the potential for large volumes of gas to be purchased from, and supplied to, the market at prescribed times.