

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

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DATE 21/09/2022

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

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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? | The assessment framework for considering a proposed rule change seems OK but it should include the potential consideration of a change in law. |
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CHAPTER 5 – ISSUES FOR CONSULTATION

| PROBLEM STATEMENT | |
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| 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? | I agree that there is currently a major problem with the NGRs in that they do not ensure that the east coast gas markets have sufficient gas available every day so that there should never be a gas shortage. This is a much wider problem than just the DWGM as it affects all east coast gas markets. What has been proposed will do little to alleviate this problem and will probably cost Victorian gas consumers a lot. |
| 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)? | The Dandenong LNG facility is rather small and has not been able to protect the DWGM from gas shortages. Even when it is full it can only inject 9.8 TJ/hour into the Victorian gas network. As Victorian Peak Demand is around 1150 TJ/day (average 47.9 TJ/hr) this will be insufficient to avert a gas shortage in Victoria let alone the other eastern states gas markets. |
| 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): | The USA is now considered to be the largest LNG exporter recently overtaking Australia, yet its domestic gas market price (as per Henry Hub) is now around \$US7.70/MBTU (approx. AUD\$11.50/GJ at current exchange rate). Australian gas consuming businesses and residents are being severely penalised by excessive East Coast LNG exports which have created a domestic gas shortage that has affected gas safety and security and they will be paying more than \$30/GJ for gas when their current contracts expire. |

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| | <p>Australia is now suffering from rampant inflation and one way for the Commonwealth Government to reduce this without massive increases to interest rates would be to allow AEMO to manage the gas market to bring down gas (and indirectly electricity) prices.</p> <p>However, if this gas market problem is allowed to continue unabated then gas prices will surge again and there will be more gas shortages as European gas demand increases during their coming winter.</p> |
| a. the supply of gas in Victoria? | |
| 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? | |
| 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>This is not the most appropriate way to avert a gas shortage.</p> <p>I believe that the most effective solution to avert a gas shortage would be for AEMO to be empowered to manage the east coast gas markets directly and to be able to curtail LNG exports from Gladstone if a domestic gas shortage is forecast.</p> <p>They also should also have to ensure that there is an amount of Contingent Gas available (30% of average daily demand) so that in the event of a coal fired generator having to suddenly shut down there will be sufficient gas available for gas powered generators to operate and protect the reliability of the NEM.</p> <p>Once sufficient domestic gas is available to the markets then domestic gas prices should fall to a much more reasonable level. This may require a National Gas Law change, but it is in the best interests of all domestic gas consumers and will ensure that sufficient gas is available for the transition to Renewable Energy.</p> <p>Without this gas prices will remain extremely high; so will electricity prices, as gas powered generation will set the cost of price caps in the NEM.</p> |
| 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? | In addition, the gas price cap for the east coast markets should be lowered to \$20/GJ which is around 3 times the current well head gas cost. Allowing gas prices to exceed \$400/GJ is reckless and places undue stress on gas users. |
| 8. Does the proposed rule properly reflect the solution described in the rule change request, or are amendments required? | See above |
| 9. Do you think the proposed solution: | |

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| 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? | |
| 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? | |
| 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? | |
| 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? | |
| 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? | |
| 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 | |

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| LNG facility and how this has been reflected in the principle set out in the proposed rule? | |
| 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? | |
| 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? | |
| 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? | |
| COST RECOVERY | |
| 17. Do you agree with the proposals that AEMO should be required to recover: | |
| a. storage capacity costs through participant fees? | |
| b. the losses/proceeds arising from the use of the LNG stock through the linepack account? | |
| 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? | |

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| 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? | |
| 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? | |
| 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? | What I have proposed as an alternative should be put in place on an indefinite basis. As/when the energy markets transition to Renewable Energy, managing LNG exports will become a thing of the past. |
| 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? | If my proposal is implemented there should be no direct or indirect costs to gas consumers. LNG exporters will still be paid for the gas that is not being exported but at a much more realistic price. It will also encourage them to develop more gas fields so that there is always sufficient gas for the East Coast Gas markets as well as their LNG exports. If they do this, then AEMO will not have to constrain their exports. This should have been part of the original NGL and NGR but unfortunately it was never envisaged that there would be an east coast gas shortage. |

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| | Now is the time to put this NGR, and if necessary NGL, in place so that the domestic gas market is protected, and gas prices are more realistic which will allow Australian industries to be competitive. Without it there is likely to be many gas consuming businesses which cease to operate. This may fix to gas market security problem but at a huge cost to the economy and a massive loss of jobs. |
| 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? | |
| 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)? | |
| 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? | |
| 28. What, if any, effect will the proposed solution have on the prices paid for gas in Victoria? | |