



INFORMATION

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

DWGM interim LNG storage measures

The Australian Energy Market Commission (AEMC) has made a rule that will enable the Victorian gas market operator to better manage the risk of curtailment for gas users during the tight demand-supply conditions expected from 2023 to 2025.

Overview of the final rule

From 15 December 2022, the more preferable rule will enable the Australian Energy Market Operator (AEMO) to better respond to the tight demand-supply conditions expected from 2023 to 2025 and manage the risk of curtailment for Victorian gas users that may arise as a result.

The amendments to the NGR will require AEMO to act as both buyer and supplier of last resort for the Dandenong LNG facility over 2023-2025. The new rules will also set out:

- the contractual arrangements to be put in place between AEMO and the LNG storage provider to support AEMO's roles as buyer and supplier of last resort
- how the costs AEMO incurs as buyer and supplier of last resort are to be recovered from market participants, and how any proceeds it generates are to be distributed back to market participants
- the accountability and transparency measures that will apply to AEMO in its capacity as buyer and supplier of last resort so that market participants remain informed about AEMO's actions under these new rules.

As buyer of last resort, AEMO will be required to buy all the uncontracted capacity of the Dandenong LNG storage facility (excluding any required for operational and non-market purposes) and purchase gas from the DWGM to fill that tank capacity. However, AEMO must relinquish its capacity if a market participant seeks to acquire such capacity.

AEMO's role as supplier of last resort requires it to inject gas from its LNG stock into the DWGM if it reasonably considers that there is a threat to system security that would be unlikely to subside without its intervention.

The new rules also specify that AEMO will be required to recover the costs it incurs and distribute any proceeds that it generates through the buyer and supplier of last resort roles on a monthly basis through a new cost recovery-proceeds distribution mechanism.

Other transparency measures included in the rule require AEMO to publish a report twice a year on its use of the Dandenong LNG facility and its activities as buyer and supplier of last resort. This reporting is in addition to the existing threat to system security and post-intervention report requirements that AEMO must comply with when it intervenes in the DWGM.

The key features of the final rule are set out in the figure below.

AEMO as buyer of last resort	Procurement of uncontracted storage capacity AEMO must contract any uncontracted winter LNG storage capacity at the end of 1 March and may procure additional uncontracted winter capacity that becomes available after this date.	Target level for beginning of winter LNG stock target level (measured by reference to AEMO's contracted capacity): <ul style="list-style-type: none"> • the highest level reasonably possible, or • such other level determined by AEMO and approved by the Victorian Minister.
	Procurement of gas to fill and refill LNG storage AEMO must purchase gas for storage with the objective of achieving the target level for LNG stock by the beginning of winter. AEMO can determine whether to refill its LNG reserve during or after the winter months in a relevant year, having regard to forecast market conditions and if it is reasonably necessary to mitigate the risk of potential threats to system security.	
	Relinquishment and disposals <ul style="list-style-type: none"> • AEMO must relinquish storage capacity to the LNG storage provider if it is required to satisfy a request by a market participant (except where it would result in AEMO breaching its safety plan or legislative/regulatory obligations) • AEMO may transfer LNG stock to a market participant that has acquired its relinquished capacity using the pricing methodology specified in procedures 	
AEMO as supplier of last resort	Use of LNG reserve AEMO may inject gas from its LNG reserve for the purposes of rule 343(1). This rule allows AEMO to use its LNG reserve if it reasonably considers a threat to system security is unlikely to subside without intervention. This includes a threat to supply, safety, gas quality, system pressure and flows.	Supply of last resort provisions AEMO can include gas in: <ul style="list-style-type: none"> • a pricing schedule if all available participant bids have already been scheduled & the market price would otherwise have been at VoLL • an operating schedule if gas is already in a pricing schedule or all market participant LNG injection bids have been scheduled
	Supply from LNG reserve AEMO can inject gas from its LNG reserve by: <ul style="list-style-type: none"> • including it in market schedules at VoLL, subject to the supplier of last resort provisions in the rules • using any other means available to it (directions) 	
	LNG stock disposals AEMO can dispose of LNG stock if it has a contractual or regulatory obligation to do so. In such cases, AEMO must bid the LNG in at \$0 and, to the extent possible, schedule in the gas in a manner that minimises impacts on market reasonably foreseeable to AEMO.	
Contractual arrangements	Storage agreement requirements LNG storage agreement must be in place at all times in 2023-2025 and allow AEMO to contract uncontracted LNG storage capacity to satisfy its obligations under the NGR.	Terms of LNG storage agreement LNG storage agreement must: <ul style="list-style-type: none"> • be consistent with rules 282, 285(1), 286(3)-(4) • allow AEMO to relinquish capacity where required by rule 286(1) • otherwise be on substantially the same terms (including as to price and price structure) as 2022 LNG storage agreement, subject to variations: <ul style="list-style-type: none"> ◦ that are reasonably necessary for the safe and reliable operation of the LNG storage facility ◦ that give effect to the terms of the 2022 agreement that provide for variation in specified circumstances or using specified methodologies.
	Dispute about initial LNG storage agreement If AEMO and LNG storage provider can't reach agreement by 1 Feb 2023 they can refer the dispute to arbitration via the AER. The arbitrator may make an interim determination that will apply until the dispute is resolved.	Role of AER Responsible for: <ul style="list-style-type: none"> • referring dispute to arbitrator • taking enforcement action if parties fail to comply with negotiation obligations.
Cost recovery & proceeds distribution	AEMO to use a single monthly cost recovery proceeds distribution mechanism that provides for: <ol style="list-style-type: none"> all costs to be recovered monthly and allocated to participants on basis of a fixed allocation factor based on withdrawals in the prior financial year all proceeds to be distributed monthly to participants using same allocator as costs. 	
Accountability & transparency	AEMO to publish: <ul style="list-style-type: none"> • liquefaction schedule agreed with LNG storage provider and any material updates • biannual report by 1 May and 1 November setting out: <ol style="list-style-type: none"> how much LNG stock AEMO holds going into winter and summer what has occurred in the last 6 months in terms of: <ul style="list-style-type: none"> ◦ the amount of storage capacity procured and relinquished ◦ the amount of gas held in storage, the amount of gas injected from the LNG reserve and the amount of LNG stock transfers ◦ the costs incurred (broken down by cost category) and the amount of proceeds generated (broken down by proceeds category). 	

This rule is a temporary solution to reduce the risks to system security and public safety in the Victorian DWGM between winter 2023 and 2025.

Benefits of the more preferable rule

The final rule is likely to contribute to the achievement of the national gas objective by improving the safety, security and reliability of the supply of gas to Victorian consumers through:

- enabling the Dandenong LNG facility to be used more effectively by AEMO to mitigate risks to system security
- supporting the efficient operation of the DWGM.

The first of these benefits will be of particular importance over the term of the rule given the projected risk of peak day supply shortfalls, with the ability of AEMO's LNG reserve to act as an insurance policy that can be drawn upon if these shortfalls or other threats to system security arise.

In making the final rule, a number of changes were made when compared with the proposed rule: These include:

- a more targeted, fit for purpose and proportionate buyer and supplier of last resort framework for the Dandenong LNG facility
- a greater degree of transparency and accountability of AEMO's actions as buyer and supplier of last resort
- additional steps to be taken to mitigate the risk that AEMO's new roles will crowd out market participants or otherwise affect their incentive to use the Dandenong LNG facility.

Context and rule change request

On 8 August 2022, the Victorian Minister for Energy, Environment and Climate Action (Victorian Minister) submitted a rule change request to the AEMC.¹

The rule change request is a priority action agreed to by Energy Ministers. It is intended to enable AEMO to manage peak day supply shortfalls in Victoria more effectively over 2023-2025 by allowing it to act as buyer and supplier of last resort for the Dandenong LNG facility.

The Victorian Minister asked that the rule change request be considered using an expedited process on the basis that it is an 'urgent rule' under the National Gas Law.

In doing so, the Minister stated that the arrangements currently applying to the Dandenong LNG facility are not providing market participants with sufficient incentive to hold LNG stock.

When coupled with the risk that Victoria could experience peak day supply shortfalls and reduced system resilience between 2023 and 2025, the Minister stated that these arrangements pose an imminent threat to supply of gas in Victoria and the DWGM's effective operation.

For information contact:

Senior Adviser, **Daniela Moraes** (02) 8296 0607

Director, **Meredith Mayes** (02) 8296 7849

Media enquiries: media@aemc.gov.au

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¹ Victorian Minister for Energy, Environment and Climate Action, *Rule Change Proposal — Enhanced Utilisation of the Dandenong LNG facility* (rule change request), 8 August 2022.