

29 May 2025

Ms Anna Collyer
Chair
Level 15
60 Castlereagh Street
Sydney NSW 2000

By online submission

Dear Ms Collyer,

Extension of the DWGM Dandenong LNG interim arrangements (GRC0078)

AEMO welcomes the opportunity to respond to the AEMC's Consultation Paper "Extension of DLNG arrangements". The rule change request seeks to amend the National Gas Rules (**NGR**) to extend the DLNG interim arrangements by three years and introduce measures to enhance transparency and oversight of the Dandenong liquefaction facility.

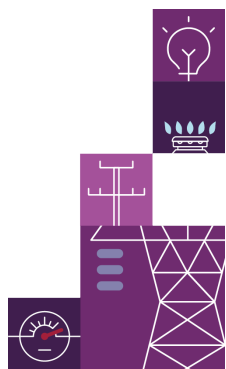
Contracting obligations and dispute resolution mechanism

Under the current Rules, AEMO must contract for use of uncontracted LNG storage capacity and purchase gas for storage with the objective of achieving the target level by the start of the winter months in the relevant year¹. To expressly reflect the intent of this rule, it would be beneficial for this rule to be clarified that contracting of uncontracted capacity must be on the basis that it is available to be used, to avoid any misinterpretation that AEMO will contract for capacity that is not available to be used, such as longer-term operational issues that materially affect the injection, withdrawal or storage capacity of the facility.

The recent operational issues with the BOC liquefaction facility have highlighted a separate risk where AEMO has already contracted for DLNG storage capacity and is holding LNG stock, but the liquefaction facility subsequently becomes unavailable or at reduced capacity for an extended period. In this scenario, if AEMO was required to inject the LNG stock, the stock could not be refilled and AEMO would not be able to utilise the contracted capacity, although APA may still charge for the contracted capacity which would be an unreasonable cost to Victorian consumers given the capacity cannot be used. It would be beneficial for the Rules to require the LNG storage agreement to ensure payment is only required from AEMO where the contracted capacity can reasonably be used.

The rule change proposal considers that the LNG storage agreement between AEMO and APA associated with the proposed extension of the DLNG interim arrangements should be substantially on the same terms (including as to price and price structure) as the 2022 LNG storage agreement. However, AEMO considers that this proposed arrangement lacks the required protections against potential increases in costs especially in

¹ Rule 282(3).



relation to the liquefaction service. In particular, the current Rules for the LNG storage agreement allow for variations that are reasonably necessary for the safe and reliable operation of the LNG storage facility.

There is a risk that APA could seek to materially increase capacity charges and pass through materially higher costs and charges for liquefaction during the extension period to reflect capital expenditure or long-term investment costs that purport to be for the safe and reliable operation of the LNG storage facility, even where the overarching arrangement is presented as a continuation of prior terms. AEMO accepts that standard CPI-based price escalation is appropriate to reflect ongoing cost movements. However, it would be inconsistent with the intent of the rule for APA to recover new capital expenditure or long-term investment costs over the three-year extension period.

This risk is especially relevant if the BOC facility becomes unavailable for a prolonged period and APA proposes an interim liquefaction solution. Such arrangements may be necessary but could introduce significant and potentially inflated costs. For this reason, AEMO recommends that the Rules should include safeguards that ensure pricing remains reasonable and consistent with prior arrangements in both structure and cost profile including liquefaction costs and charges.

AEMO supports the inclusion of a rules-based dispute resolution mechanism which covers two key areas:

- (i) The negotiation, execution and termination of a new or renewed storage contract between AEMO and APA under the revised framework; and
- (ii) Contractual disputes that arise during the extension period relating to the variation of the new agreement.

However, we note that the proposed arbitration pathway to mitigate against contractual disputes (such as material cost increases) may not resolve contractual matters efficiently and within the timeframes needed. To address this risk, consideration should be given to whether the AER may be better placed to determine disputes, similar to the role of AER under NGL 91BH in determining disputes about service envelope agreement and operating agreements. Including a clear pathway for resolving such disputes would help uphold the pricing guardrails intended by the regulatory framework. Without such a mechanism, there is a heightened risk of inefficient outcomes and higher costs ultimately borne by consumers.

Operational visibility of liquefaction services

AEMO agrees that there appears to be a gap in the current arrangements regarding transparency over the BOC liquefaction facility. AEMO considers that the simplest solution is to strengthen the existing GBB reporting obligations for the DLNG storage facility to ensure they reflect liquefaction availability. AEMO recommends a clearer obligation in Part 18 of the NGR on APA – as the BB reporting entity for the DLNG gas storage facility – to report daily capacity in a way that accurately reflects the capacity of the liquefaction service provided by the BOC facility². A corresponding obligation is needed in the NGR on BOC to provide that information to APA. AEMO does not propose the introduction of a new facility type in Part 18 of the Rules for the BOC facility, however as APA, as the BB reporting entity for the DLNG storage facility, does not own, operate or control the BOC facility, the definition of BB storage facility may need to account for the liquefaction facility having a different owner, operator and controller.

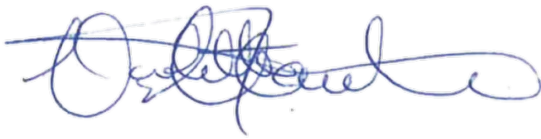
² While the existing definition of daily capacity under Rule 141 of the NGR may be interpreted to include the quantity of gas that the gas storage facility can receive and process into storage on a gas day, it is unclear whether this includes liquefaction availability.

AEMO oversight of the declared LNG supply agreement

AEMO does not necessarily require oversight of the underlying Declared LNG Supply Agreement however a level of comfort that the service being contracted can be relied on is needed, which will be provided by the proposed transparency measures mentioned above.

AEMO looks forward to continuing work with the AEMC on the extension of the DLNG interim arrangements rule change. Should you wish to discuss any aspects of this submission please contact Paddy Costigan, Group Manager, Gas Reform at Paddy.Costigan@aemo.com.au.

Yours sincerely,



Violette Mouchaileh

Executive General Manager, Policy and Corporate Affairs