5 June 2025

Anna Collyer
Chair
Australian Energy Market Commission

Submitted via email: www.aemc.gov.au

Dear Ms Collyer

**Extension of DLNG arrangements – Consultation Paper**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) *Extension of the DWGM Dandenong LNG interim arrangements* Consultation Paper.

Origin recognises the intent of the proposed extension is to provide AEMO with a mechanism to manage peak day supply adequacy and system incidents, noting the current interim rule expires at the end of 2025 and a more formal Supplier of Last Resort (SoLR) mechanism (if progressed) may not be operational until 2027. Notwithstanding this, it is not clear that extending AEMO's ability to procure *all* uncontracted capacity at the Dandenong LNG (DLNG) facility is necessary or appropriate at this time. This is considering market participants are strongly motivated to manage their contracted demand in the most cost-efficient manner, and the improved near-term supply outlook. Should the rule be required, we also recommend the AEMC consider a variation of the current framework that would help address the proponent's underlying concern, better support market-led decision making, and lower costs for consumers, as we discuss further below.

**1. The rationale for extending the proposed rule requires further consideration**

Market participants are commercially incentivised to efficiently manage their contracted demand with sufficient supply, including through the use of storage facilities, to avoid potentially purchasing spot gas at high prices during peak periods. This is evidenced by the fact that, currently, Iona Underground Storage, as in past years, is close to fully contracted and refilled (97 per cent, per the Gas Bulletin Board) heading into winter.[1] Since the interim arrangements were first introduced in 2022, several transport and storage infrastructure expansion projects within or supplying the DWGM have also been completed. Examples include the Western Outer Ring Main, Heytesbury Underground Gas Storage, and South-West Queensland Pipeline expansions. These facilities offer cost-effective alternatives to DLNG in the form of storage and linepack.

Extending the proposed rule and requiring AEMO to purchase and refill all remaining uncontracted capacity may reduce incentives for participants to manage their own risk through efficient contracting of the above services. It would also reduce any incentive for the facility operator to improve the cost competitiveness of the storage service.

The current rule was also predicated on the view there were imminent reliability risks that needed to be managed following the events of winter 2022.[2] However, peak day supply risks are not currently forecast

[1] ACCC, Gas inquiry 2017–2025, interim report, January 2022, February 2022, pg. 15.
[2] AEMC, 'National Gas Amendment (DWGM interim LNG storage measures) Rule 2022 – Rule Determination', 15 December 2022, pg. iv.



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to emerge until 2028 based on AEMO's 2025 Gas Statement of Opportunities (GSOO).[3] Given the SoLR framework is expected to be in place ahead of this period (i.e. by 2027, if progressed), this would suggest there is a reduced need to extend the existing DLNG arrangement in the intervening period. The AEMC should also consider the direct costs associated with the extension relative to the likely benefits, noting AEMO's procurement costs over the duration of the current rule are in the order of $9.6 million.[4]

**2. An alternate, market-led approach to procuring uncontracted capacity should be considered**

If the AEMC ultimately determines there is merit in extending current arrangements in some form, we recommend consideration is given to a revised framework that can better support market-led procurement of uncontracted capacity and reduce overall costs for market participants / consumers. This approach could involve introducing a quarterly reverse auction for all remaining uncontracted capacity at DLNG at a point in time (e.g. ahead of winter), which would provide market participants with the opportunity to procure and refill storage at a more efficient and transparent price point. This is consistent with the principles underpinning the Day Ahead Auction (DAA) applicable to transportation facilities, and should not undermine incentives for market participants to separately forward contract capacity at the facility given the need to manage their supply / demand risks over future periods.[5] Any gap between the clearing price of a given reverse auction and the cost incurred by the facility operator to provide the service could then be recovered from AEMO's trading fund (that was established as part of AEMO's trading powers).

This approach should ultimately be lower cost relative to the counterfactual where AEMO procures all uncontracted capacity at the facility. It is possible the revised framework could also be implemented relatively quickly by leveraging existing systems used for the DAA. Further, the ability for market participants to access the facility and participate in the auction would be high due to its location and the market carriage nature of the DWGM.

Origin is also supportive of the additional transparency obligations proposed. Transparency around the operational capability of all facilities in the DWGM is critical to the efficient management and use of gas in, especially over peak demand periods.

If you wish to discuss any aspect of this submission further, please contact Liz Robertson at elizabeth.robertson@originenergy.com.au.

Yours Sincerely,

S Cole

Shaun Cole
Group Manager, Regulatory Policy

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[3] AEMO, 'Gas Statement of Opportunities', March 2025, pg. 66.

[4] Calculation based on the LNG storage capacity charges between 2023 and 2025 excluding GST published in the six monthly Dandenong LNG Summary Report. AEMO, 'Declared Wholesale Gas Market – Dandenong LNG Summary Report', May 2023, pg. 5 , May 2024, pg. 2 and May 2025, pg. 2.

[5] AER, Focus report: Wholesale gas market report: Day Ahead Auction, September 2024



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