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Supplementary Letter to the National Gas Amendment (Extension of the DWGM Dandenong LNG interim arrangements)

APA Submission

June 2025



Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Lodged via email

13 June 2025

RE: APA Supplementary Letter to DWGM Dandenong LNG Interim Arrangements Consultation Paper

Dear Ms Collyer,

Thank you for the opportunity to provide our additional insights on the AEMC's National Gas Amendment (Extension of the DWGM Dandenong LNG interim arrangements) Rule 2025 Consultation Paper (Consultation Paper).

APA is an Australian Securities Exchange (ASX) listed owner, operator, and developer of energy infrastructure assets across Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, renewable generation infrastructure and battery storage.

In APA's 29 May 2025 submission to the Consultation Paper (May Submission), we outlined the urgent need for long-term certainty to support investment in the liquefaction facility at Dandenong LNG. In this supplementary letter, we would like to provide additional views on matters raised in the Consultation Paper. We appreciate the ongoing consultation regarding the proposed rule change.

Reintroduction of AEMO oversight and consent to changes of the declared LNG supply agreement

As part of their rule change proposal, the Victorian Minister proposed to re-introduce a clause that will require AEMO to consent to any variations or termination of the APA-BOC LNG supply agreement.¹ The clause was removed from the rules in 2010 in part as it represented a 'specific intrusion into APA's commercial arrangements with the LNG supplier (BOC).' We support this view. We are concerned that re-introducing the clause that was removed in 2010 will re-introduce the same risk of intrusion into APA commercial arrangements with BOC.

The rule change proposal offered the following justification for re-introducing the rule:

*"However, removing these provisions had the unintended outcome of also effectively removing almost all AEMO visibility of the liquefaction service which in the current context of a tightening supply demand balance and potential shortfalls and reduced system resilience is increasingly hampering its ability to adequately fulfil its declared system functions."*²

¹ Victorian Government, *Extending DWGM interim LNG storage arrangements rule change proposal*, pg. 17

² Ibid, pg. 18

As noted in our May Submission, we support AEMO having greater visibility of the liquefaction service. Concerns regarding the visibility of the facility are addressed through the proposed reforms in other areas, specifically the amendments to Part 18 that will place appropriate reporting obligations on BOC's liquefaction facility. Therefore, reintroducing AEMO consent to variations or termination of the supply agreement is not required to support greater visibility of the liquefaction service.

Tension between the rules, storage agreement and liquefaction risk

As flagged in our May Submission, we are concerned about the suitability of the existing provisions of rule 282 of the NGR and the rule's ability to meet the objectives of the interim DLNG measures. To recap:

- Under 282(2), APA's storage agreement with AEMO must be on substantially the same terms as the AEMO 2022 LNG Storage Agreement³
- Under 282(3) AEMO must contract any uncontracted DLNG storage capacity at the end of 1 March⁴

These requirements are not aligned with:

- The actual terms of the APA-AEMO LNG Storage Agreement which is for year-round storage; it is agnostic of 1 March or 'winter months'
- The operational need for flexibility given increasing liquefaction delays and outages
- The critical role that Dandenong LNG plays in mitigating shortfall risks in the Victorian Transmission System (VTS)
- The growing threat of potential and actual shortfall events year round

This misalignment raises a number of issues:

1. Under the current rules, AEMO is not obligated to contract spare storage capacity if a shipper contract rolls off prior to 1 March of each year. This increases the risk that AEMO will have to liquefy gas soon after a shipper has vaporised its holdings at the end of its contract. This raises two inefficiencies. Firstly, it is an inefficient utilisation of Dandenong LNG, given the time and energy required to refill the Dandenong LNG facility. Secondly, it places much greater reliance on an unreliable liquefaction facility and significantly increases the risk of Dandenong LNG not being full at the time of a shortfall event in Victoria.
2. As coal power stations become increasingly unreliable and renewables play a greater role, gas storage will become more important to support gas powered generation (GPG) and the broader National Electricity Market. For example, on 13 February 2024, Dandenong LNG facility played a critical role in supporting GPG and the broader NEM following a large coal power station going offline. Such events, which are becoming more frequent, highlight the importance of maintaining storage inventory year-round and not just for the winter months. In

³ AEMC, *National Gas Rules*, r282(2)(c)

⁴ AEMC, *National Gas Rules*, r283

this respect, GPG customers are consumers of gas whose long term interests need to be considered in the application of the National Gas Objective.

Recommended amendments to rule 282

To address the issues outlined above, we recommend removing the phrases “at the end of 1 March of any relevant year” and references to “upcoming winter months” from Rule 282(3). This change would:

- better align the rules with the actual contracting practice and agreement structure of the LNG supply agreement between APA and BOC
- enable AEMO to contract storage capacity as soon as it becomes available (i.e., when existing contracts roll off)
- support timely filling of the Dandenong LNG and reduce liquefaction risk

Clarifying market incentives

During our consultation around the rule change proposal, a concern has been raised that removing the 1 March contracting requirement could disrupt market incentives to contract at Dandenong LNG. It has been posed that if AEMO is required to hold capacity year-round, it will disincentivise shippers to contract.

The nature of the LNG storage product offered at Dandenong LNG is primarily used by shippers as an insurance product. Customers use Dandenong LNG to hedge against price spikes or unexpected reliability events. AEMO's role as a supplier of last resort is complementary to, not a substitute for, this use.

For the insurance/hedge role of the product to be effective for a market participants own gas book, the market participant must be holding the requisite quantity of LNG inventory in their account. This must be in advance of the event, allowing the market participant to bid into the market at the time of the spike. Therefore, market participants should remain incentivised to contract LNG inventory to ensure it is in their account when a spike occurs.

The existing rules enable third parties to contract storage, and AEMO must relinquish their contracted capacity to a market participant when requested. Our recommended amendments to rule 282 do not inhibit this mechanism.

We look forward to continued engagement with the rule change. If you have any questions about our submission, please contact John Skinner at john.skinner2@apa.com.au or 0435 898 022.

Regards,



Natalie Lindsay

General Manager
Eco Regulatory and External Policy