

East coast gas system supplier of last resort

The Commission is seeking feedback on the proposed introduction of a supply-side and demand-side last resort mechanism for the east coast gas system.

The rule change request proposes rules to facilitate Australian Energy Market Operator's (AEMO) intervention if there are threats to reliability and supply adequacy in the ECGS that market participants have been unable to resolve.

The Commission has published a consultation paper to assist stakeholders in considering a rule change request from the Chair of the Energy Senior Officials and the Hon Lily D'Ambrosio MP, Minister for Climate Action, Minister for Energy & Resources and Minister for the State Electricity Commission (the proponents).

This rule change request seeks to enhance the existing reliability and supply adequacy (RSA) framework for the east coast gas system (ECGS). It proposes introducing a supplier of last resort (SoLR) mechanism, that comprises both supply-side and demand-side actions to enable AEMO to intervene if there are threats to reliability and supply adequacy in the ECGS.

The Commission also intends to consider the potential impact of any changes made in response to this request on the current interim buyer and supplier of last resort mechanism created in 2022 for the Dandenong LNG storage facility in the Victorian declared wholesale gas market (DWGM).

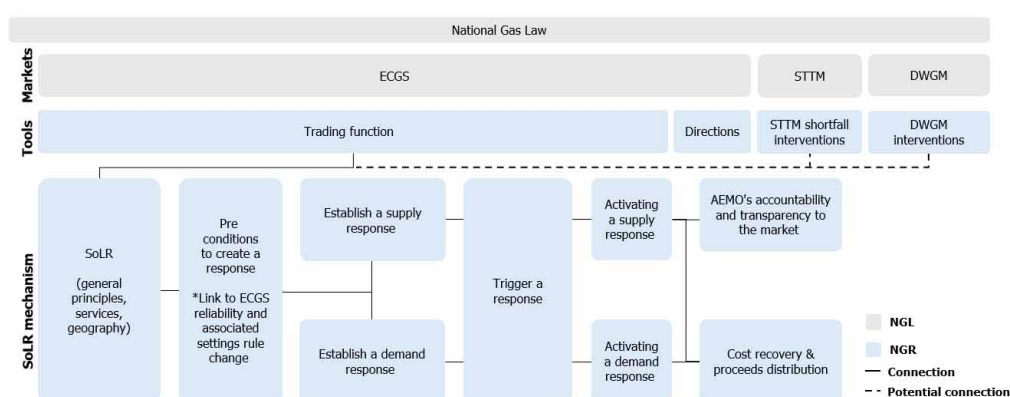
Submissions responding to this consultation paper are requested by 5:00pm (AEST) Thursday 30 October 2025.

Context for this rule change request

The rule change request identifies several limitations with the current ECGS trading function, which AEMO can currently use to trade in gas or to purchase pipeline, compression or storage services. This includes that the current arrangements lack guidance for AEMO on using the \$35 million trading fund associated with the function and provide few guardrails to check its use.

The request proposes a comprehensive arrangement of rules designed to support a supply-side and demand-side last resort function for AEMO to intervene in the ECGS to address threats to reliability and supply adequacy that market participants have been unable to resolve. The figure below outlines the proposed scheme, identifying the key components on which the Commission is seeking stakeholder feedback.

Figure: Context and components of the proposed SoLR mechanism



This rule change is one of four that seek to enhance the reliability and supply adequacy (RSA) framework for the east coast gas system (ECGS). The RSA framework intends to equip the Australian Energy Market Operator (AEMO) and market participants to better respond to the risk of gas supply shortfalls.

There are three issues to resolve

First, all the stage 2 RSA rule change requests address a shared problem: risks of gas shortfalls in the ECGS. This core issue is informed by the supply and demand outlooks released by AEMO and the Australian Competition and Consumer Commission (ACCC) in recent years that project gas shortfall risks from the late 2020s.

Second, the rule change request identifies limitations with the current ECGS trading function and proposes replacing it with a supply and demand side last resort mechanism

AEMO can currently use the trading function set out in the National Gas Law (NGL) to trade in gas or to purchase pipeline, compression or storage services. The proponents consider that this current arrangement lacks guidance and clarity for AEMO and market participants about how to use the trading function, including the associated \$35 million trading fund, and provides few guardrails to check its use.

Third, the Commission is also considering the potential impact of any changes made on the current interim buyer and supplier of last resort mechanism for the Dandenong LNG storage facility. There are several issues about how the proposed supplier of last resort mechanism could impact the Dandenong LNG interim arrangements. The Commission intends to use this rule change request to find an enduring solution for the Dandenong LNG facility following the expiration of the interim arrangements.

The Commission is consulting on a comprehensive set of arrangements

We are seeking feedback across all components of a supplier of last resort mechanism that have been proposed in the rule change request, as well as potential alternative solutions to inform the draft rule determination. Below is a brief summary of the issues discussed in the consultation paper.

Preconditions and triggers for using a SoLR mechanism: The Commission is considering the preconditions required before AEMO can establish a SoLR reserve and the triggers that must be satisfied to enable AEMO to use it. These considerations about the possible preconditions and triggers will also take into account the proposed interaction with the ECGS reliability standard and associated settings rule change, other RSA rule changes, and related reforms.

Operating a SoLR mechanism, including cost recovery and transparency arrangements: The key features of operating a SoLR mechanism include how to guide AEMO's ability to enter into or vary contracts with market participants, requiring AEMO to relinquish its stock of gas or capacity to other market participants, and how to guide AEMO's cost-effective use of the mechanism. In addition, the Commission is also considering arrangements for transporting gas procured via the SoLR mechanism, how AEMO should use its existing facilitated market functions in parallel, and how to reduce the risk of AEMO crowding out market participants when it intervenes in the market.

Introducing an administered demand response mechanism: The Commission is also considering the proposal for an administered demand response mechanism, which includes questions about the availability of flexible gas, incentives for gas users, and interactions with existing market mechanisms.

Removing the \$35 million cap for the trading fund and replacing it with a more transparent cost recovery and proceeds distribution mechanism: The Commission is considering a range of cost allocation approaches. These are beneficiary or causer pays AEMO's SoLR costs, requiring market participants to pay based on their demand for gas, or requiring all gas market participants to pay. These methodologies are also being considered in the context of proceeds distribution.

Keeping market participants informed and AEMO accountable: The Commission recognises the importance of simplicity and transparency in reporting that reflects principles of good regulatory practice. As such, we are consulting on the proponents' proposed system of five sequential 'action-based' notices to address the current

Next steps

Written submissions responding to this consultation paper must be lodged by 5:00pm (AEST) Thursday 30 October 2025 via the AEMC's website, www.aemc.gov.au.

The AEMC will also hold an online stakeholder information session on 1 October 2025 to support stakeholders in responding to the consultation paper. Please [register here](#) to attend.

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