

29 October 2025

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

By online submission

Dear Ms Collyer,

### **ECGS Supplier of last resort mechanism (GRC0077)**

AEMO welcomes the opportunity to respond to the AEMC's consultation paper (the Paper) for the east coast gas system (ECGS) Supplier of last resort (SoLR) mechanism rule. AEMO supports the development of a SoLR mechanism to enhance reliability, supply adequacy and resilience in the ECGS.

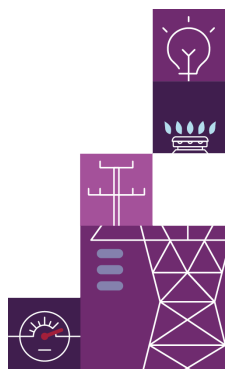
#### *Role of the SoLR*

The consultation paper frames the SoLR mechanism as addressing reliability and supply adequacy threats in the ECGS. AEMO agrees but considers it important to articulate what this means across different timeframes and scenarios, including specific consideration of system resilience, so that the tool is appropriately designed. AEMO notes that the terms reliability, supply adequacy and resilience are often used interchangeably and are interrelated concepts. The SoLR should address at least the following scenarios:

- **forecast shortfalls:** AEMO's GSOO and ACCC projections identify potential supply-demand imbalances emerging from the late 2020s onwards, including both structural adequacy shortfalls and peak-day deliverability challenges. The SoLR mechanism could provide a market-based tool for AEMO to intervene where market participants have not adequately responded to these forecast threats.
- **providing system resilience:** Beyond forecast shortfalls, the SoLR mechanism could play a critical role in enabling the system to respond to unexpected events or disruptions – such as unplanned facility outages, pipeline failures or extreme weather events. As the ECGS becomes increasingly reliant on fewer large production facilities and storage facilities, and key transmission pipelines, the system's vulnerability to such disruptions increases. The SoLR could act as a resilience mechanism, ensuring the system can meet periods of stress when unexpected events create immediate threats that the market cannot adequately address.

AEMO considers that addressing forecast supply adequacy shortfalls and providing resilience to unexpected events are essential functions of the SoLR mechanism. However, we note that different scenarios require different responses which will in turn require the SoLR mechanism to be flexible in its geographic scope, timing, procurement approach, and operational application.

*SoLR: consideration of policy framework and trade-offs must precede design and implementation.*



A critical design consideration for the SoLR mechanism is the policy framework governing procurement by AEMO. Without clear direction, the mechanism risks imposing substantial and unnecessary costs on consumers or resulting in a level of procurement that is insufficient in response to the risk environment.

AEMO notes that in the absence of explicit guidance in the rules, it is difficult to determine the appropriate and efficient level of SoLR capacity to procure and deploy. This is not simply a technical design issue but is rather a fundamental policy choice. The balance between reliability and resilience on the one hand, and affordability for consumers on the other, involves significant economic and social trade-offs that have not been fully considered. These trade-offs need to be resolved before implementation of a SoLR framework and should be determined by the AEMC through this rule change process and the related reliability standard review, rather than left to AEMO to manage on an ad-hoc basis or as part of implementation.

#### *SoLR design and operation*

AEMO supports Policy Option 3B from the consultation paper: an integrated supply and demand response mechanism operating across the entire ECGS throughout the year. Options that limit geographic application or apply seasonal restrictions (such as 2A), would be inappropriate because resilience and supply adequacy threats can emerge anywhere in the ECGS and at any time. Without SoLR the primary response to such issues would be through directions or curtailment (or potentially the trading fund, noting its limitations). The SoLR could provide an AEMO facilitated, market-based mechanism to address such threats.

AEMO also supports integrating supply and demand side responses within a single framework rather than establishing separate mechanisms. A streamlined approach will be more efficient, but uncertainties remain regarding the actual quantum of demand response, cost effectiveness and operational barriers. A staged implementation may avoid unnecessary infrastructure costs, such as starting with a register, evaluating participation and costs, and expanding to a formal panel if proven viable.

AEMO considers that the SoLR mechanism would primarily operate through a tender and contract model where AEMO would procure gas and services from participants rather than AEMO directly trading or procuring gas itself. Under this approach, market participants would manage issues such as transportation and title of gas through their existing contractual arrangements. AEMO would specify required outcomes such as delivery location, storage requirements or a demand response capability. Direct AEMO gas procurement would only occur as a backup where service contracting fails or in emergency situations. This approach leverages market participants' existing infrastructure, commercial relationships, and expertise, while reducing AEMO's operational complexity outside the DWGM where AEMO is not the system operator.

AEMO supports using a reserve establishment notice as a standard precondition for contracting, with flexibility for emergency situations where advance notice is impractical. Procurement should occur through transparent contracts with market participants for service delivery, with terms, variation processes and relinquishment arrangements detailed in procedures. A flexible relinquishment framework is preferred, allowing AEMO to assess requests case-by-case and decline them where relinquishment could compromise resilience, reliability and supply adequacy.

AEMO considers that a flexible SoLR design could offer the right balance between cost, flexibility and proportionality. Different types of reserves could be established to address distinct risks. For example, short-term reserves would primarily support reliability and supply adequacy to manage seasonal or locational shortfalls, operating as complementary measures to broader system resilience. Longer-term reserves could support broader resilience against structural supply risks. The mechanism should allow AEMO to establish

reserves in anticipation of emerging risks and to support system resilience, rather than acting only once a shortfall occurs. A consistent SoLR framework across the ECGS, applied flexibly, would improve coordination and efficiency of the mechanism across the ECGS.

#### *Preconditions and triggering of SoLR*

AEMO considers that the preconditions and triggers for using the SoLR mechanism should be designed to strengthen the resilience of the gas system by allowing proportionate and timely action ahead of where a market response is not expected to be timely or adequate. Triggers should therefore provide AEMO with flexibility to act pre-emptively, informed by operational judgement and guided by provisions in the Rules and Procedures to ensure transparency and minimise market distortion. Rather than prescribing a strict sequence with all the reliability and supply adequacy intervention tools, the framework should allow AEMO to determine the most appropriate response to prevailing conditions in our Procedures, recognising that the SoLR will be one of several complementary mechanisms to manage reliability and supply adequacy.

In defining these preconditions, AEMO notes the importance of aligning the SoLR mechanism with the reliability standard consultation under consideration. The Paper recognises that a formal reliability standard may not be adopted and that the framework may instead take the form of a tiered risk or threat signalling approach informed by a probabilistic metric. This evolving approach for the reliability standard creates some uncertainty for how intervention thresholds or cost trade-offs will be defined in practice. AEMO considers that workable preconditions for SoLR activation are required regardless of whether a numerical reliability standard is established. While probabilistic tiers (e.g. 5-15%, 15-50% and 50-100%, *probability of supply not meeting demand, as outlined in table 5.2 of the paper*) may provide a useful conceptual guide, their operational application is limited without clarity on what probability is being measured, over what timeframe and with what level of statistical confidence. Accordingly, there should be flexibility in how AEMO interprets and applies these signals based on operational circumstances. In addition, the Rules need to provide more detailed policy guidance on how the various levels or tiers are to be determined and how they interact with SoLR to aid AEMO and industry in implementing a robust SoLR framework.

#### *SoLR interaction with other market mechanisms*

AEMO considers it important that the SoLR mechanism complements existing market mechanisms across the ECGS including contingency gas in the STTM and AEMO's system security powers in the DWGM. The SoLR mechanism should also align with other potential future measures such as the proposed reliability standard, with both measures intended to provide a more enduring solution for the Dandenong LNG (DLNG) interim arrangements.

AEMO considers that detailed interactions with other market mechanisms should not be overly prescribed in the Rules as this could limit flexibility across jurisdictions and markets. Instead, AEMO supports the inclusion of procedural guidance to outline how these mechanisms should operate together, and ensuring AEMO retains the ability to respond appropriately under different market conditions.

AEMO does not consider the activation criteria for AEMO's DWGM intervention powers need to be amended. These powers are operational in nature and support AEMO's declared Victorian function that enable immediate action to mitigate threats to system security. By contrast, the SoLR is a market-based mechanism designed to address forecast or emerging reliability, supply adequacy or resilience threats across the broader ECGS. System security is not equivalent to reliability or supply adequacy - they serve different purposes and

may be operated across different timeframes. The two frameworks should therefore remain clearly delineated, allowing AEMO to use the appropriate tool depending on the circumstances.

#### *Dandenong LNG arrangements*

The relationship between the SoLR mechanism and the DLNG interim arrangements requires careful consideration. The current DLNG arrangements mandate that AEMO must contract for use of uncontracted storage at the facility as at 1 March each year, providing certainty for Victorian system security, resilience and reliability but potentially crowding out market participants. A SoLR mechanism would operate more flexibly, with AEMO establishing reserves based on identified threats rather than mandatory procurement. However, there is an inherent trade-off between cost and maximising resilience and reliability that needs to be considered in the design of the SoLR mechanism specifically for DLNG given its role in providing system security for the Declared Transmission System.

AEMO notes that under the current NGL east coast gas system framework, AEMO does not have explicit powers to trade in LNG (as LNG may not come within the definition of 'covered gas'). For the SoLR mechanism to operate effectively, particularly in relation to DLNG and broader system resilience, AEMO recommends that the NGL be amended to allow trading in LNG where necessary.

#### *STTM interaction*

AEMO considers that the triggers for the SoLR mechanism should remain separate to the triggers for the STTM contingency gas mechanism. The contingency gas mechanism is market-specific and designed to address short-term, localised imbalances within the STTM, whereas the SoLR would operate at the ECGS level.

#### *Implementation and governance*

AEMO supports transitioning away from the trading fund and its cost-recovery and proceeds distribution mechanism if a SoLR framework is implemented as a replacement. AEMO supports a cost allocation mechanism that is demand-based, consistent with existing DLNG arrangements and the Part 27 compensation framework in the ECGS.

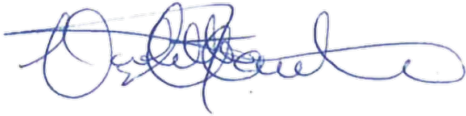
Regarding reporting and governance, AEMO considers that the proposed one-month timeframe for post-intervention reporting is too short for comprehensive analysis and cost validation. A two-tier reporting approach should be considered with AEMO providing a preliminary interim-report covering an event summary, responses, and any estimated costs to be followed by a more comprehensive final report.

Annual ministerial reporting requirements as discussed in the consultation may be unnecessary given Ministers can request information at any time under section 91AE of the NGL, making mandatory annual reporting an administrative burden without commensurate benefit. Similarly, it is not clear to AEMO that there is additional benefit in the proposed biannual reporting given the inclusion of post-intervention reports that will provide time and detailed assessments of SoLR activities.

Finally, the proposed six-month implementation timeframe is unrealistic given breadth of procedural, contractual and operational deliverables required. A more appropriate timeframe would be 9-12 months from the date of the final rule to allow sufficient time to develop and consult on multiple procedures (procurement, cost recovery, contracting, relinquishment and reporting), design and test standard form reserve contracts with flexibility to adapt for different reserve types, and establish supporting governance, cost recovery and financial systems to ensure readiness for contracting and activation ahead of commencement.

AEMO looks forward to continuing work with the AEMC on the Stage 2 RSA rule changes. Should you wish to discuss any aspects of this submission please contact Paddy Costigan, Group Manager, Gas Reform at [Paddy.Costigan@aemo.com.au](mailto:Paddy.Costigan@aemo.com.au).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Violette Mouchaileh", with a long horizontal flourish extending to the right.

Violette Mouchaileh

**Executive General Manager, Policy and Corporate Affairs**