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Australian Energy Market Commission (AEMC)

Submitted via AEMC website

Lochard Energy submission on ECGS supplier of last resort mechanism (ref: GRC0077)

Dear AEMC

Lochard Energy (Lochard) welcomes the opportunity to provide feedback on the Commission's direction paper seeking feedback on the proposed supplier of last resort mechanism (SoLR) for the east coast gas system (ECGS), as part of the reform package under the stage 2 Reliability and Supply Adequacy (RSA) framework.

Lochard is the owner and operator of the Iona Gas Storage Facility (Iona), located in southwest Victoria. Iona is an important component of the east coast's energy infrastructure, playing a pivotal role in energy supply security and reliability and supporting the integration of variable renewable generation, particularly in winter. Currently, Iona's nameplate capacity is 570 TJ/d expanding to 615 TJ/d from 2027 with potential for further expansion subject to market demand. Maximising Iona capacity to meet Victorian demand is dependent on the corresponding expansion of the Southwest pipeline.

Overall, Lochard supports a framework that enables efficient and effective responses to reliability and supply adequacy risks over the short- and long- term in the ECGS. First and foremost, Lochard supports a mechanism that ensures market participants continue to have the first opportunity to provide solutions to mitigate any supply risks and threats. In most cases, the market is likely to be best placed to seek out effective supply or demand solutions. This is evidenced through the instances in recent years when AEMO identified potential supply threats in southern markets in winter, and the market responded promptly with mitigants and enabled the lifting of supply threats within a reasonable timeframe. In addition to such market responses, Lochard sees the SoLR playing a critical role in ensuring supply security when low-frequency yet high-impact events occur that critically disrupt supply and energy security on the east coast.

The mechanism, if appropriately designed to align with the rest of the stage 2 RSA reforms, will enable the market and AEMO to respond effectively to the risk of gas supply shortfalls, reduce duplication, improve efficiency, and enhance market transparency. Below is Lochard's feedback on the consultation paper:

Importance of including demand-side response

Lochard welcomes the AEMC's proposal to incorporate an administered demand response mechanism into the Supplier of Last Resort (SoLR) framework (option 3B), noting that such a mechanism has not been fully considered in past consultations. We believe a demand-side response can serve as a valuable tool for managing short-term system stress during critical demand days.

Applying reliability standard to ECGS in stages

Option 3B presents itself as an ideal RSA framework for the ECGS. However, as highlighted in the consultation paper, Lochard has concerns about the complexity, implementation challenges, and time and cost this may involve. Therefore, it is appropriate to prioritise the initial focus on southern jurisdictions to address winter deliverability threats as the first stage; with a phased rollout to other jurisdictions on a case by case and as needed basis. This process will support refinement of the standard to ensure it reflects the operational realities of the ECGS and meets market needs. A progressive implementation will also promote a smoother transition and foster greater confidence among market participants as the standard becomes embedded in ECGS market operations.

Iona inventory level as a short-term reliability indicator

Lochard supports the introduction of a set of fit-for-purpose reliability criteria for the ECGS. Acknowledging that one of the key roles of storage is to provide supply security and reliability, it appears that AEMO has used Iona inventory levels as an indicator of potential supply threats in the southern market in recent years.

Lochard supports the use of Iona's inventory level as a short-term reliability indicator. The past winter experience has clearly shown that the southern market needs more flexible winter peak supply for a longer duration. This implies the potential need for an increase in storage inventory of 4-6PJ in the current supply system, and more storage inventory towards 2030 as coal exits.

In its data submission to AEMO for the preparation of 2026 GSOO and VGPR, Lochard has included information on prospective development of a further 6.4PJ storage capacity by 2030. If supported by the market, the additional capacity could extend full Iona withdrawal capacity by another 10 days in winter and further mitigate the potential of mid-winter supply shortfall risk.

AEMO's role in reserve contracting and relinquishment

Lochard supports the proposal that AEMO be given the power to enter or vary reserve contracts using the SoLR if it has issued an establishment notice. Below are Lochard's views on an effective reserve position and options to establish such a position.

1) An effective reserve position

As outlined in the consultation paper, to meet AEMO's reserve position needs, it may require providers to invest in additional equipment, and operationally storage could take several months to fill. Further, by giving AEMO sufficient time to set up contracts in advance, it would likely have sufficient time to run a competitive tender and negotiate a contract that ensures the provision of gas at an efficient cost to consumers.

Considering the lead time to establish a reserve, it is potentially inefficient if storage is only used to manage the short-term supply shortfalls, and this could be further exacerbated by the strict requirement that AEMO must relinquish SoLR storage reserve and sell gas under certain conditions, leading to AEMO taking unnecessary losses.

Instead of short-term ad hoc positions and reflecting on Lochard's view that the purpose of the SoLR reserve is to mitigate low frequency and high impact events, Lochard proposes a strategic reserve approach that covers 7-14 days of winter supply. This would be established for the period leading up to Eraring/Yallourn retirement or the shutdown of a second train at Longford to when, for example, sufficient pipeline and domestic production or import capacity are brought online.

From a cost perspective, there is the initial gas cost, on-going cost of capital for gas in storage, and cost of using storage holding capacity (reservoir capacity), as well as additional top up gas cost if gas is used to supply shortfalls. Any remaining gas could be sold in a timely manner to recover the residual cost of gas (and potentially achieve a profit). The net cost can then be recovered through the relevant jurisdictions. This approach is likely to deliver better security and incur lower transaction costs to the market.

2) Options to establish the reserve position

Lochard sees two possible ways to establish the reserve position. One being, as outlined in the consultation paper, that AEMO directly contracts capacity with the service providers and procures gas. Alternatively, Lochard considers it plausible, and potentially more efficient, for AEMO to use an intermediary. One of the key requirements in this case would be to maintain the full inventory throughout winter. On request of AEMO, the intermediary could withdraw gas from reserve.

Lochard would like to acknowledge the extensive consideration that the AEMC has already undertaken in preparing the consultation paper, which highlights the complex nature of the matters being considered. We welcome and encourage the AEMC to continue engaging with Lochard and market participants through stakeholder forums and workshops and would be happy to assist the AEMC further.

If you would like to discuss this submission, please contact Ee Siew Ong at eesiew.ong@lochardenergy.com.au.

Yours sincerely



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