



30 October 2025

Submission: Rule Change Request – Supplier of Last Resort Mechanism for the East Coast Gas System

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure. APGA members ensure safe and reliable delivery of over 1,500 PJpa of gas consumed in Australia alongside over 4,500 PJpa of gas for export.

APGA welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) consultation on implementing a Supplier of Last Resort Mechanism (SoLR) for the East Coast Gas System (ECGS). The SoLR was part of the "Stage 2" supply adequacy reforms for the ECGS requested by the Energy and Climate Ministers Council (ECMC) in December 2023, in turn building on the "Stage 1" trading and directions functions for AEMO in 2022. "Stage 3" reforms are expected to provide AEMO with further powers regarding gas infrastructure investment.

This package of reforms was requested by the ECMC in response to a shortfall of gas supply in the ECGS in the winter of 2022, exacerbated by the war in Ukraine. This context is relevant when considering the proposed SoLR mechanism, nearly two years in development, and related to other reforms such as a reliability standard.

None of the supply adequacy reform package elements directly address the underlying issue: successive interventions into the gas market have undermined its foundations, which is a gas supply and transport market facilitated through execution of firm supply and transport contracts. These contracts underpin investment in gas exploration and in production and transport infrastructure. Regulatory interventions over the last decade have steadily unpicked the stitching of this relationship and provided opportunities for hedging, weakening the case for investment in additional supply and transport capacity that would ordinarily solve potential supply adequacy issues.

In our submission to the Department of Climate Change, Energy, the Environment and Water (DCCEEW)'s 2023 consultation on the Stage 2 reform package¹, APGA observed that gas customers with firm supply and haulage did not experience undersupply risks during

¹ APGA, 2023, *Submission: Reliability and Supply Adequacy for the East Coast Gas System: Stage 2 Framework Development*, <https://apga.org.au/submissions/reliability-and-supply-adequacy-framework-for-the-east-coast-gas-market>

the 2022 gas crisis. Those customers who did not hold firm supply and haulage contracts were at risk of price shocks – and in the gas market, that is a reasonable business decision that balances risk. It is not the responsibility of the AEMC to engender rules that protect or absolve those entities from the natural consequences of those decisions, and in doing so further undermine the contract carriage market.²

Given that undoing these interventions, such as the Day Ahead Auction, at this stage may introduce new and unforeseen impacts, it is necessary to deal with the consequences of what is already in place. Therefore, APGA is not opposed to implementing a SoLR mechanism if it is genuinely limited to emergency situations.

A solution in search of a problem

The AEMC has proposed a comprehensive set of rules to support both a supply-side and demand-side last resort function for AEMO to intervene in the ECGS, in the event that market participants have been unable to resolve potential reliability threats. This complements the Stage 1 powers provided to AEMO, which were, by nature, emergency powers.

AEMO has maintained that the Stage 1 powers as presently implemented lack sufficient guidelines and checks on its use. APGA agrees that the current Stage 1 powers could benefit from clearer guidance and safeguards, but does not accept that this necessarily warrants creating an additional mechanism under the National Gas Rules.

In the intervening period between the commencement of Stage 1 powers in May 2023 and now, AEMO has exercised its Stage 1 diversion powers for one event: the physical failure of a section of Jemena's Queensland Gas Pipeline. This required AEMO to exercise its gas diversion powers on six occasions 5-17 March, followed by directions to maintain supply to end users between 8 March and 10 December 2024.³ Notably, this event was immediately followed by market-led responses to keep gas flowing to areas of critical supply need, particularly alumina refineries and other gas-reliant industry in Gladstone.

AEMO has issued a further two threat notices unrelated to the QGP event, one on 23 August 2024 which was revoked, and one on 19 June 2024.

In general, situations requiring AEMO direction to maintain the supply of gas are rare, despite forecast tight supply in the ECGS. When it is required AEMO can and has used its

² In that submission APGA proposed a quid pro quo that would require gas market participants (particularly gas retailers) to 'show their cards' in the event of a shortfall – demonstrating they had sufficient contracts in place at the time of the event. Those participants without firm supply during a supply adequacy event would cede rights to supply assurance through AEMO's directions powers, which could be extended to the SoLR. This model would avoid the moral hazard of providing a reasonably strong incentive to under-contract supply needs.

³ AEMO, 2024, *East Coast Gas System – Queensland Gas Pipeline event, Final Post Intervention Report, December 2024*, <https://aemo.com.au/-/media/files/gas/east-coast-gas-system/east-coast-gas-system---queensland-gas-pipeline-post-intervention-report-december-2024.pdf>

existing Stage 1 directions powers to intervene where *necessary* due to insufficient contracting of gas. APGA does not consider additional guardrails to be strictly necessary – but accepts that the proposed SoLR mechanism, linked to the use of the proposed tiered threat signalling mechanism, will provide those guardrails.

1.1 Do you agree that these are problems to be addressed by this rule change process?	APGA accepts that AEMO would prefer additional guidance on the use the ECGS trading function. But we are not convinced the supply-side solution offered by a SoLR will address actual supply issues in the ECGS. It provides supply to the market in an emergency or shortfall event. It does not act to address the causes of those shortfall events, which would be better solved by addressing overall system supply. Shortfalls of gas in the ECGS are not due to a physical shortage of reserves, but rather due to insufficient investment signals to create additional supply (and the additional infrastructure to transport it). Without addressing these fundamental causes, the problem will persist even with band-aid solutions like a SoLR to provide short-term relief. APGA has previously observed that AEMO being simultaneously the arbiter of interventions through directions, and the supplier of last resort, may create some perverse incentives and impede efficient market-led solutions, neither of which are easily addressed by further amendments to AEMO's functions. However, APGA accepts that the cost of setting up a separate entity to administer the SoLR and related mechanisms may outweigh the benefit of averting these potential conflicts.
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Supplier of Last Resort mechanism design

The SoLR is intended to provide a stop gap assuming that a) AEMO has identified a forecast breach of the proposed gas reliability standard in the latest GS00 or PASA and communicated this breach by a risk or threat notice, and that b) the adequacy or feasibility of a market response may be insufficient to resolve this threat.

Notwithstanding that the AEMC is recommending against proceeding with a gas reliability standard, APGA accepts the broader argument to develop a mechanism to address what to do if the market does *not* respond to threat notices. This mechanism will need to be carefully designed to ensure that it does not result in further distortions to the market.

2.1 What do you consider to be the best policy option outlined? Why?	Option 3B – a SoLR mechanism with an integrated administered demand response mechanism – makes the most sense if implementing a SoLR is genuinely desired. As noted below APGA considers an administered demand response mechanism likely desirable but probably challenging to implement. An integrated solution would have the benefit of allowing AEMO the flexibility of using both mechanisms, while minimising impacts to market participants where possible.
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SoLR preconditions

The proposed preconditions note that AEMO will need to have identified a forecast breach of the reliability standard in the latest GSOO or PASA. Presuming this amended to reflect the final decision of the AEMC regarding both a reliability standard and a PASA, with the former likely to consist of a threat signalling mechanism instead of a reliability standard, APGA considers these preconditions sufficient.

AEMO will need to have regard to the adequacy or feasibility of the response (or likely response) from market participants *at the time the assessment is undertaken*, and that market participants should be given a *reasonable period of time* to take action. What is reasonable will naturally depend on the nature of the forecast shortfall (as noted by the AEMC).

8.1. Do you consider that a risk or threat signalling framework that uses tiers and a probabilistic metric would be a useful and relevant precondition for AEMO to decide whether to establish a SoLR reserve?	Yes.
8.2. If a tiered risk or threat signalling framework was used, what tiers and probabilities would be appropriate signals for making decisions on using a SoLR mechanism?	APGA is not opposed to the tiers suggested by the AEMC, which balances potential severity with likely market response.
8.3. Would a tiered system of shortfall risk provide a clear signal to the market about when AEMO would consider whether to intervene?	Yes, these tiers would provide a strong graduated signal to market about the likelihood of AEMO intervention.

Triggering the SoLR mechanism

APGA urges caution in the use of operational changes as a trigger. The AEMC references Rule 440 of the NGR, *Contingency gas trigger events* for the STTM, as a possible model for operational triggers for a SoLR mechanism. STTM hubs necessarily are different beasts to the ECGS as a whole. While upstream events as an operational change trigger is reasonable, forecast pressure conditions and what is considered “normal” daily delivery capacity for production or storage may differ for different pipelines, at different times of the

year, for different reasons – either consequential, or inconsequential. All of this should involve discussions with the operator, and precludes inclusion as an automatic trigger.

The AEMC does acknowledge this, further noting that AEMO is not the operator of the ECGS in the same way it is for the facilitated market and will experience information asymmetries: “As a result, it could trigger a SoLR mechanism earlier or later than needed to address a threat to reliability or supply adequacy.”

9.1. To what extent should the preconditions for a SoLR mechanism include operational factors? Why?	Depends on the factor.
9.2. What operational conditions should be part of the trigger for a SoLR mechanism?	APGA agrees that an upstream event is a reasonable inclusion as an operational factor trigger.
10.1 To what extent should AEMO retain some discretion as part of the trigger for SoLR? Why?	AEMO should retain some discretion when it comes to being able to engage with market participants before it decides that an operational change is indeed likely to result in a shortfall event necessitating intervention.
11.1 Should the trigger to use contingency gas in the STTM be separate and mutually exclusive from a SoLR mechanism in the ECGS? Why?	The triggers should remain mutually exclusive. It is not reasonable to add new obligations on all pipeline operators as to whether STTM trigger conditions have occurred, especially for conditions upstream or outside of their facilities. This may also duplicate AEMO reporting as part of the draft PASA framework.
12.1 Should the trigger to intervene for system security reasons in the DWGM be amended if a SoLR mechanism for reliability and supply adequacy threats is introduced for the ECGS? Why?	Potential interactions between the ECGS SoLR and the DWGM introduce considerable and potentially unnecessary complexity into the market. One of the triggers for the DWGM is the storage levels of the DLNG facility, which is related to its system services contribution to the DWGM separate to its reliability contribution.
12.2 Should the trigger for AEMO to use the Dandenong LNG storage facility be amended if a SoLR mechanism for the ECGS is introduced? Why?	No. The DWGM trigger for the DLNG facility is specific to that facility and the intricacies of its operational arrangements, and the SoLR should not intervene or replace those arrangements.
12.3 Are there any issues the AEMC should consider if the DWGM intervention powers and an ECGS SoLR mechanism are to co-exist?	See above. Additionally, boutique asset by asset solutions – such as the DWGM arrangements for the DLNG facility – are not ideal and should be avoided. The DLNG facility's situation is unique and are not likely to be resolved purely by the implementing of a broader ECGS SoLR.

Relinquishment mechanism

It is important that the presence of the SoLR does not unnecessarily distort the operation of the market. Here APGA errs on the side of stricter relinquishment mechanisms, such as

operates in the DWGM for the DLNG facility, where AEMO must relinquish its capacity facility if a market participant wishes to purchase those services. APGA does not consider the risk that AEMO would be unable to respond to a supply threat in this instance sufficient enough to warrant this kind of intervention. APGA also notes that in the event of a *physical* shortfall, such as through unforeseen events that impact supply or transport, it doesn't actually matter who holds gas contracts – AEMO through the SoLR, or any other market participant.

16.1 To reduce risks of crowding out, should the NGR specify a mandatory, discretionary or hybrid approach to the relinquishment of capacity and transfer of gas for SoLR storage reserves?	APGA would prefer a mandatory approach as operates in the DWGM for the DLNG. The identified alternative mechanism would be the next preferred option. APGA considers it strongly advisable to avoid any additional market distortions.
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Administered demand response mechanism

APGA supports the concept of a voluntary administered demand response mechanism. As the AEMC correctly identifies, implementing such a mechanism for the ECGS is more challenging than perhaps appreciated by the rule change proponents (relative to how it informally exists in the facilitated markets and formally in the electricity market). And as the proponent correctly identifies, likely participants would necessarily be limited to large load commercial and industrial customers, where smaller customers would not be able to provide any meaningful contribution.

Identifying those participants is the necessary challenge, and this is where the competitive tendering process may come into play. APGA also notes that some of these participants may be identified through the process of establishing a Willingness to Pay measure proposed in the threat signalling framework.

The proponents have stated in their requests that participants should *not* be compensated for availability to participate in such a mechanism, but only for actually delivering services (not using gas). An availability payment would likely make potential participants more likely to both identify themselves and participate, but the cost of this would need to be weighted up against potential benefits.

20.2 What impact would the terms of gas supply and transport agreements have on gas users' ability to participate in an administered demand response mechanism? Would these contracts require amending to enable participation in demand response mechanism?	Many of these agreements are predicated on "take or pay" contracts; so customers are paying for the gas stipulated in their GSAs regardless of whether or not they use it. Under GTAs, shippers must nominate capacity daily, with any contracted but unnominated capacity going to the Day Ahead Auction (with a starting bid of \$0). So there is room within the scope of these agreements that would enable some gas customers, and some shippers, amenable to
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	participating in an administered demand response mechanism.
20.3 Would an availability fee help overcome some barriers and enable greater participation in an administered demand response mechanism?	Yes, but the quantum of such a payment would need to be carefully considered for its additional costs relative to its potential benefits. APGA does not support mandatory participation in such a scheme.

Cost recovery

The design of the fund and cost recovery mechanisms for the SoLR are, ultimately, less important than the design and intent of the SoLR itself. Of the options provided, Option 2 (with the cap removed) would provide sufficient flexibility for AEMO to act when and to the extent necessary, assuming sufficient guardrails are imposed such as linking the size of the SoLR reserve to market price settings.

When assessing cost allocation methodologies, APGA is sympathetic to a beneficiary or causer-pays approach. We concur with Brickworks' observation that causer pays approaches could help 'avoid creating a perverse incentive for gas buyers to remain intentionally short to the market if they believe it will lower their overall cost due to the scheme's cost being smeared across all gas buyers' – avoiding this moral hazard was the basis for our suggestion for implementing a kind of Retailer Reliability Obligation for gas. APGA does acknowledge that this approach would be challenging to implement, relative to a share of gas demand-based approach.

APGA does not agree with sharing across all gas market participants, for the reasons noted above. Such an approach would ultimately result in additional costs to end users.

22.1 Should the trading fund: a. be retained as is b. be retained in an amended form, and if so, what amendments should be made, or c. be removed and replaced with a cost recovery and proceeds distribution mechanism as proposed?	Option 2 (retaining the trading fund) with the cost cap removed would provide flexibility for AEMO to respond, as long as recoverable costs are reasonably limited.
24.1 Do you agree with the proposed cost allocation methodology – that costs be recovered from relevant entities based on their share of gas demand at the locations where a SoLR reserve is established and in each month that the SoLR reserve is in place? Or are other alternative approaches preferred? Why?	APGA would prefer the beneficiary/user pays approach which would help avoid create perverse contracting incentives, but acknowledges the demand-based approach has benefits.
27.1 Do you agree with the proposal that AEMO establish a separate financial account for its use of the SoLR mechanism? Why	Yes. The additional transparency provided by a separate financial account is necessary.

To discuss any of the above feedback further, please contact me on +61 409 489 814 or cr Rafael@apga.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Catriona Rafael', with a stylized, flowing script.

CATRIONA RAFAEL
Senior Policy Manager
Australian Pipelines and Gas Association