26 November 2025

Anna Collyer
Chair
Australian Energy Market Commission

Submitted online: www.aemc.gov.au

Dear Ms Collyer

ECGS supplier of last resort mechanism – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Consultation Paper on the *East Coast Gas System (ECGS) supplier of last resort (SoLR) mechanism* rule change.

We recognise there is a desire from governments to ensure the Australian Energy Market Operator (AEMO) has adequate tools to manage threats to reliability and supply adequacy in the ECGS, particularly as gas consumption patterns change over time. While annual gas demand in the southern states is forecast to remain relatively flat / decline, the coincidence of variable gas power generation (GPG) demand and potential for colder weather over the winter months is expected to drive an increase in maximum daily quantity (MDQ) requirements. Ensuring there is a transparent and predictable approach to managing seasonal tightening and high-demand periods (where necessary) could reduce reliance on more reactive and unpredictable interventions.

The proposed SoLR mechanism could potentially assist with this by providing a structured framework for procuring storage and demand response services. Significantly, it could help make AEMO's actions more predictable and transparent relative to a counterfactual scenario where the operator relies on its existing trading powers that are broad in scope and not well defined in terms of how they can be operationalised. For example, the framework could clarify:

- The circumstances under which AEMO would trade in gas, given current rules and AEMO procedures do not sufficiently define what constitutes a system reliability risk / threat.
- The methodology AEMO would use to determine how much gas / storage capacity it would contract and at what cost.
- How far in advance of a forecast threat / risk AEMO would commence contracting.
- The duration of time AEMO would hold a supply position and the approach AEMO would use to relinquish contracted storage capacity.
- The approach AEMO would take to organising gas transportation arrangements (e.g. if necessary to support its procurement of storage capacity).

However, the SoLR mechanism would need to be carefully designed to ensure it applies in a targeted way and does not undermine market-led responses or lock in material costs for market participants (and ultimately consumers) by seeking to address highly uncertain supply / demand risks well ahead of operational timeframes. This is given market participants and current operational / regulatory tools have been effective to date in managing extreme demand days (including during the volatile 2022 winter period), and this is expected to continue where there is physically sufficient annual supply.

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It would also be beneficial for the AEMC to undertake a comprehensive cost-benefit assessment and expand on the 2023 gas demand study completed by ACIL Allen to determine the quantum of commercial and industrial (C&I) demand that could practically respond reliably to system risks / threats, to inform the development of that aspect of the SoLR framework.[1]

We have provided further views on the design of the proposed SoLR mechanism in Appendix 1. If you wish to discuss any aspect of this submission further, please contact Thomas Lozanov at thomas.lozanov@originenergy.com.au.

Yours Sincerely,

Shaun Cole
Group Manager, Regulatory Policy

[1] The findings of ACIL Allen's initial study were summarised in Energy Senior Officials' Consultation Paper for *Stage 2 of the Reliability and Supply Adequacy Framework for the East Coast Gas Market*.

Design considerations for a SoLR mechanism

Trigger for establishing a SoLR reserve

As part of a separate rule change process the AEMC has determined that a NEM-style reliability standard would not be appropriate for the gas market and proposed an alternate tiered, probabilistic risk / threat signalling protocol.[2] The Consultation Paper suggests AEMO's establishment of a SoLR reserve would be linked to this framework and contingent on a particular threat / risk level being declared. This is a reasonable approach, albeit noting the individual threat / risk levels would need to be well defined to ensure the SoLR mechanism is only used to address credible threats to reliability / security of supply. Where a credible risk has been identified, consideration should be given to requiring AEMO's Gas Supply Adequacy and Reliability Conference (GSARC) framework to be first utilised to call for a market-led response ahead of relying on SoLR powers.

Timeframe of operation

AEMO-led procurement of supply / storage / demand response in planning timeframes (e.g. at T-1 year or earlier) rather than operational timeframes could give rise to unnecessary costs that would be borne by the broader market and ultimately consumers. This is because procurement may be based on an uncertain view of demand (e.g. due to uncertainty around forecast GPG utilisation), and the supply / demand balance could materially improve closer to the relevant time.[3] To minimise costs and market distortions it is imperative the establishment and activation of SoLR reserves occurs closer to operational timeframes.

As shown in Box 1, historically, the market has effectively managed extreme demand days and so it should continue to be afforded the maximum time possible to address any forecast reliability / supply risks.

[2] AEMC, *ECGS Reliability standard and associated settings*, Directions Paper, p. 25
[3] AEMO has recently emphasized that there are "significant challenges in accurately forecasting gas usage for GPG [gas powered generation]". AEMO, 2025, *Forecasting gas usage for gas-powered generation*, p. 2.

Box 1: Southern states supply & demand dynamics over winter

Demand

Southern Winter

- Winter gas demand in the southern states (NSW, VIC & SA) generally ranges from 230 to 300 PJ.
- There is typically a tightening in the demand / supply balance over the winter months due to increased heating requirements and GPG demand.
- As seen in Figure 1 demand surged in 2019 and 2022 due to cooler weather and increased need for GPG firming in the NEM, while milder temperatures in 2023 led to notably lower demand.

Supply

1. Southern Production

- Southern demand is predominantly met by production from local gas fields, primarily Longford in VIC, and to a lesser extent smaller fields in the Otway, Bass and Cooper Basins as seen in Figure 2.
- Despite a recent decline in southern production with the depletion of Longford gas fields, local supply will continue to meet most of the demand in the south over the next few years, supplying over 1,000 TJ/d during peak days.

2. Southern Storage

- Southern storage facilities (Iona & Dandenong LNG) are essential for daily and seasonal market balancing, filling during summer and enhancing supply capacity during higher demand southern winters.
- The ability of storage to deliver large gas volumes at short notice makes it invaluable for meeting peak day needs.
- Iona and Dandenong LNG can inject up to 570 and 237 TJ/d respectively on a peak demand day.

3. SWQP Flows

- When southern demand exceeds local supply and storage capacity, gas is sourced from QLD via the South-West Queensland Pipeline (SWQP).
- Market participants contract and utilise pipeline capacity as needed to manage gas flows to meet demand.
- Up to 512 TJ/d can be transported southwards via the SWQP but historically, the pipeline has operated comfortably within southbound capacity limits, as southern demand has largely been met by regional production and storage.

Figure 1: Daily gas supply used to meet southern demand (AEMO, 2024)

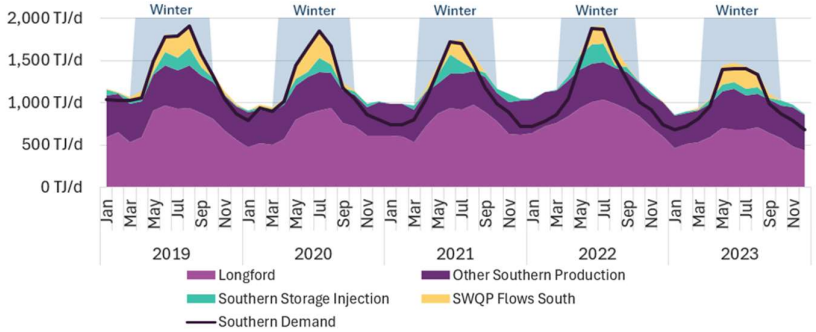


Figure 2: Gas supply used to meet southern winter demand, 2019 – 2023 (AEMO, 2024)

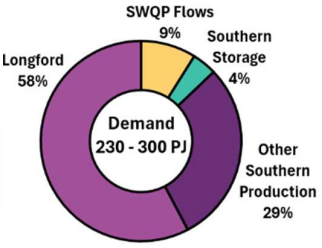
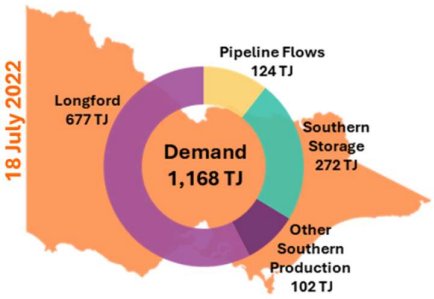


Figure 3: Gas supply to meet peak demand in Victoria on the highest demand day in 2022 (AEMO, 2022)

18 July 2022 was an extreme peak demand day in Victoria which saw AEMO issue a Threat to System Security notice and direct participants to cease withdrawals unless there were sufficient injections to meet demand. This intervention likely increased pipeline flows into VIC from NSW to support the market.

Notwithstanding, demand was predominantly met by local production sources, representing 70% of total gas supply into the market. The remainder of demand was met with injections from Iona at 20% and then pipeline flows from NSW at 10%.



Incorporation of demand response

Where procurement of demand response is enabled, integrating this into the SoLR, rather than establishing a separate standalone demand response mechanism, would be the most straightforward approach. This would avoid the duplication / complexity that would arise from creating two intervention mechanisms each with its own supporting arrangements (e.g. trigger, cost recovery framework, etc).

From an operational perspective it would likely be best if AEMO established a register of potential demand response providers that could be called with a defined notice period. The remuneration of

providers should be linked to activation when required, rather than provision of availability payments irrespective of whether a service has been provided. This could help to minimise costs and would also establish a clear pool of providers that AEMO could promptly engage should a system shortfall arise. It is also consistent with the AEMC's view (in the context of the Short Notice RERT Panel) that provision of availability payments can create perverse incentives for providers to sign up to being on the panel, without necessarily ever needing to be called upon to deliver emergency reserves.[4]

Constraints on procurement costs

The AEMC should prescribe that the costs associated with establishing and activating SoLR reserves must not exceed a customer 'willingness to pay' (WTP) metric as this could provide important cost discipline around AEMO's SoLR procurement. However, if developing a meaningful WTP metric proves too challenging, it may be more practical and effective to limit procurement costs by requiring that the $/GJ cost of any SoLR reserves does not exceed the market price cap in the Declared Wholesale Gas Market or Short Term Trading Market.

Cost allocation methodology

We support a causer / beneficiary pays cost recovery method in principle, given smearing costs across all buyers may penalise those participants that have contracted prudently, which would be a perverse outcome. However, we recognise there would be complexity in implementing such an approach that would need to be worked through.

The AEMC could draw on a 2023 CEPA study commissioned by AEMO that explores how costs associated with gas directions could be recovered.[5] This study discusses how factors such as the duration and location of threat / risks should shape cost recovery methodologies.

Cost recovery will be a critical element of the SoLR framework and as such we encourage the AEMC to provide a comprehensive assessment / explanation of proposed recovery arrangements in its Draft Determination. Providing this high level of detail at an early stage in the rule change process will help stakeholders to consider the merits and practical implications of the AEMC's preferred cost recovery approach(es).

Reporting requirements

We support requiring AEMO to publish post-intervention SoLR reports as these will play a vital role in promoting transparency and accountability around AEMO's use of the mechanism.

Implementation

The AEMC notes the SoLR mechanism is intended to be fully implemented by Winter 2027 and suggests that AEMO would only have six months to finalise relevant procedural documents. We caution against such a rapid implementation timetable noting there is significant detail that needs to be developed to ensure the SoLR mechanism can be applied in an appropriately targeted and efficient manner.

As part of the implementation process, there would also be merit in the AEMC / AEMO establishing a broad gas intervention hierarchy that sets out a predictable, priority order for the market operator's potential actions. This hierarchy could take the following form:

[4] AEMC, 2019, *Enhancement to the RERT – Final Determination*, p. 180.
[5] CEPA, 2023, Recovering the costs of gas directions and the trading fund

I. AEMO first identifies a threat via the GSOO / threat signalling framework (e.g. in March).

II. AEMO utilises the GSARC to call for a market response.

III. If the threat / risk persists, AEMO initiates procurement under the SoLR.

IV. As a last resort within operational timeframes where additional market response is not available, AEMO utilises directions / trading powers.

Lastly, to support the design of the SoLR mechanism it would be valuable for the AEMC to develop a range of risk / threat scenarios to demonstrate how the mechanism would function in practice, and how it would provide a response that exceeds what market participants would be likely to deliver.