Australian Energy Market Commission

AEMC
Australian Energy Market Commission

RULE

Draft rule determination

National Gas Amendment (ECGS supplier of last resort mechanism) Rule 2026

Proponents
Energy Senior Officials
Victorian Minister for Energy and Resources

26 February 2026

Inquiries

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

E aemc@aemc.gov.au
T (02) 8296 7800

Reference:

About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the Traditional Custodians of the many different lands across Australia on which we live and work. The AEMC office is located on the land of the Gadigal people of the Eora nation. We pay respect to all Elders past and present, and to the enduring connection of Aboriginal and Torres Strait Islander peoples to Country.

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To cite this document, please use the following:
AEMC, ECGS supplier of last resort mechanism, Draft rule determination, 26 February 2026

Summary

1 A reliable east coast gas system (ECGS) has become essential to manage Australia's energy transition. It is important for industrial and commercial entities that are still natural gas-dependent, as well as residents with gas hot water, cooking and heating.

2 In addition, gas for electricity generation is now critical to maintaining the reliable and secure operation of the national electricity market. This is because gas-powered generation (GPG) helps manage extended periods of low variable renewable energy generation, providing firming support and grid security as coal generators gradually retire.[1]

3 Peak day gas consumption from GPG in winter is also forecast to grow above historical levels. This growth reflects the likelihood of lower renewable generation in winter, combined with the decline in coal-fired electricity generation and the increasing rate of electrification across society.

4 For these reasons, the ECGS will need to maintain high levels of reliability during the energy transition while also managing the evolving role of natural gas as the sector transforms. This is the challenging context in which this rule change request has been considered.

The draft rule implements the SoLR mechanism

5 The Australian Energy Market Commission (AEMC or Commission) has made a more preferable draft rule (draft rule) that introduces a supplier of last resort mechanism (SoLR) into the National Gas Rules (NGR). This mechanism aims to help address threats to gas reliability and supply adequacy in the ECGS. The mechanism provides guidance in the NGR on how the ECGS trading function in the National Gas Law (NGL) would be used by the Australian Energy Market Operator (AEMO). The ECGS trading function was established through the stage 1 reliability and supply adequacy (RSA) reforms.

6 The draft rule has been made in response to a rule change request submitted by Energy Senior Officials and the Hon Lily D'Ambrosio MP, Victorian Minister for Climate Action, Minister for Energy & Resources and Minister for the State Electricity Commission. The draft rule seeks to provide greater guidance and guardrails on AEMO's use of its ECGS trading function in the form of a SoLR mechanism to help address threats to gas reliability and supply adequacy for the long term benefit of consumers. This draft rule is part of a set of four rule changes, that together form the stage 2 RSA reforms.

7 The Commission's draft rule provides greater clarity and certainty for AEMO, industry participants, jurisdictions, and consumers on how AEMO would use its ECGS trading function. The draft rule includes a comprehensive set of arrangements in the form of the SoLR mechanism to address threats to gas reliability. The draft rule specifies: the respective roles of industry participants and AEMO; that the SoLR mechanism sits towards the end in the hierarchy of tools available to AEMO; how this function would be operated in practice by AEMO; and associated information transparency and accountability arrangements.

8 The Commission considers the draft rule would result in improved reliability outcomes for consumers, because it provides greater guidance and guardrails on AEMO's use of its ECGS trading function. The draft rule also promotes greater market efficiency by clarifying that industry participants are primarily responsible for managing gas reliability risks, and minimising market distortions that may arise from the presence and potential use of the SoLR mechanism. The draft

1 AEMO, *2025 Gas statement of opportunities*, pp 5-7.

rule is aligned with principles of good regulatory practice by providing transparency to industry participants about how SoLR is used, and is aligned with broader gas market reforms. For these reasons, the Commission considers the draft rule would contribute to achieving the national gas objective (NGO).

9 We are seeking feedback on our draft determination, draft rule and proposed implementation plan by **23 April 2026.**

Key features of the SoLR draft rule

10 The Commission has developed a comprehensive draft rule for the SoLR mechanism. The key features of the draft rule are that it:

- Introduces a SoLR mechanism enabling supply and demand-side responses to be used to address reliability and supply adequacy threats in the ECGS. (see chapter 3)
  - The draft rule enables AEMO to contract for supply and demand responses to an identified threat to gas reliability and supply adequacy in the ECGS. Including demand and supply responses broadens the potential scope of responses to an identified threat, providing AEMO with an opportunity to identify the most effective solutions possible. Supporting this, the mechanism would be available throughout the year and across the ECGS, as the Commission considers constraining SoLR to specific seasons or locations does not provide any significant advantages and may limit the usefulness of the mechanism and its ability to achieve its objective. The introduction of SoLR to address reliability and supply adequacy threats does not impact AEMO's ability to use the Dandenong LNG storage facility interim arrangements to support system security in the Victorian declared wholesale gas market.
- Requires AEMO to use competitive tendering to seek out potential demand and supply responses. (see section 3.3)
  - The draft rule broadens the rule change request concept of AEMO tendering for services, to establish a competitive tender process for AEMO to seek out potential demand and supply responses to an identified threat to reliability and supply adequacy. This requirement addresses many stakeholders' concerns that AEMO could, under the proposed arrangements, participate in the gas facilitated markets. The draft rule also provides broad scope for services that may be contracted following a tender process.
- Establishes clear preconditions and triggers for the SoLR mechanism. (see chapter 5)
  - The draft rule clarifies that SoLR is one of a suite of tools available to AEMO to address threats to gas reliability and supply adequacy, and should only be used after industry responses are exhausted. If threats persist, AEMO should first consider other tools it has available (in the gas facilitated markets and the national electricity market) prior to using the SoLR mechanism.
  - The preconditions for establishing SoLR service contracts through a tender process and the trigger for using those contracts are linked to the tiered risk or threat signalling framework set out in the ECGS Enhancing reliability and supply adequacy arrangements (ERSAA) draft rule.[2] Together, these thresholds provide clarity for industry participants and AEMO that SoLR would operate as intended by energy ministers — as a last resort mechanism before directions and emergency powers are required in extreme circumstances.

2 AEMC, *ECGS Enhancing reliability and supply adequacy arrangements*, draft determination, 26 February 2026.

- Establishes a new financial price limit on AEMO when using SoLR. (see section 4.6)
  - The draft rule removes the current $35 million trading fund and associated rules. This financial constraint on AEMO is replaced with an upper price limit on the amount AEMO should pay for contracted SoLR services.
  - The Commission considered how to design a price limit for AEMO when it enters into SoLR service contracts. While stakeholders may be able to identify other potential solutions, we explored using:
    - a willingness to pay metric
    - the market price caps in the facilitated markets
    - historical or future facilitated market prices
    - an overall financial budget, or
    - not using a price limit and instead relying on the SoLR competitive tender process.
  - Having considered these options, we have included a per GJ price limit, rather than an overall budget, in the draft rule because this would support AEMO's decision-making on contracting for SoLR services as well as guide AEMO's expenditure (and consequently the cost impact on gas consumers). As a result, the draft rule sets the SoLR service price limit at the market price cap for the Victorian declared wholesale gas market (currently $800/GJ). This price limit balances the potential impacts of market distortions and costs from SoLR while encouraging SoLR responses to AEMO's competitive tender processes.
- Implements a demand-based cost recovery and proceeds distribution process. (see chapter 7)
  - The Commission carefully considered industry participants' requests for a causer pays cost allocation and proceeds distribution methodology to replace the existing arrangements. However, we were concerned about implementation issues with a causer pays methodology and its potential administrative complexity. Having regard to the balance between improving cost allocation and the potential cost implications for gas users, the draft rule includes a demand-based cost allocation and proceeds distribution approach.
  - The cost recovery mechanism would apply once AEMO incurs SoLR costs. Those costs would be recovered from 'relevant entities' in the ECGS (as defined in the NGL) at the location of the identified threat. As a result, the draft rule would enable costs and proceeds to be shared among the participants most impacted by the identified threat for which SoLR is operationalised.
- Enhances transparency and accountability to industry participants. (see chapter 8)
  - The draft rule builds on the current arrangements to provide greater specificity on how AEMO is to support industry participants' awareness and understanding of how SoLR operates. The draft rule would require AEMO to publish a set of notices when it establishes SoLR contracts, activates those contracts and ceases to use the SoLR mechanism. These transparency arrangements align with transparency requirements in the ERSAA draft rule to reduce administrative complexity while still keeping industry participants and governments well-informed.
  - In addition, the draft rule builds on the rule change request and includes accountability requirements for AEMO, such as post-implementation reporting and maintaining a separate financial account for SoLR.

How we made the draft rule

11 The Commission has considered the NGO and the issues raised in the rule change request, and assessed the draft rule against three assessment criteria outlined below. We gathered and analysed stakeholder feedback to the consultation paper in relation to these criteria:

- promoting safety, security and reliability
- aligning with principles of market efficiency
- aligning with principles of good regulatory practice.

12 The key finding is that the majority of stakeholders supported the intent of the rule change request, which is improved guidance and guardrails on how AEMO is to use the ECGS trading function. Such guidance would also benefit industry participants by clarifying how threats to gas reliability and supply adequacy would be addressed. Further, stakeholders supported key design features to clarify how AEMO would use the SoLR mechanism, positioning industry participants as having the primary role in addressing gas shortfall threats. This approach establishes SoLR to provide a supporting role to industry as needed, minimising market distortions.

The draft rule contributes to achieving the national gas objective

13 The draft rule would contribute to achieving the NGO when considered against the following assessment criteria as follows:

- **Promoting safety, security and reliability** — by providing greater regulatory prescription on AEMO's use of its ECGS trading function in the form of the SoLR mechanism, the draft rule provides clarity and certainty on the respective roles between the market and AEMO to address gas threats to reliability and supply adequacy, which facilitates a more reliable supply of gas to consumers.
- **Aligning with principles of market efficiency** — by providing clarity that the market is responsible to address threats of gas shortfalls in the first instance and that the SoLR mechanism is designed to minimise market distortions in those limited occasions when AEMO would consider it necessary to use the mechanism
- **Aligning with principles of good regulatory practice** — by providing transparency to industry participants, jurisdictions and consumers on when and how AEMO could use the SoLR mechanism and designing the mechanism so that it fits within the suite of gas market reforms to address risks or threats of gas shortfalls in the ECGS.

Proposed implementation of the SoLR mechanism

14 The rule change request proposed the SoLR mechanism be implemented by winter 2027. The Commission understands the proponents' objective to provide greater guidance on the ECGS trading function as soon as practicable, therefore the draft rule would require the SoLR mechanism to be in place by 1 April 2027. This provides sufficient time for AEMO to undertake preparatory actions and make any necessary changes to its relevant procedures to underpin AEMO's operational implementation of the SoLR mechanism. We welcome stakeholder feedback on this proposed implementation plan.

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by COB Thursday, 23 April 2026.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code GRC0077.[3]

Tips for making submissions on rule change requests are available on our website.[4]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive, defamatory, vexatious or irrelevant content, or content that is likely to infringe intellectual property rights).[5]

Next steps and opportunities for engagement

There are other opportunities for you to engage with us. We will hold an information session on this draft determination. Details about this information session and how to register for it will be available on the AEMC website.[6]

You can also request the Commission to hold a public hearing in relation to this draft rule determination.[7]

Due date: Requests for a hearing must be lodged with the Commission by 5 March 2026.

How to request a hearing: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code GRC0077. Specify in the comment field that you are requesting a hearing rather than making a submission.[8]

For more information, you can contact us

Please contact us with questions or feedback at any stage, noting the project code.

Email:	aemc@aemc.gov.au
Telephone:	(02) 8296 7800

3 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

4 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3

5 Further information about publication of submissions and our privacy policy can be found here: https://www.aemc.gov.au/contact-us/lodge-submission

6 See our project page.

7 Section 310(2) of the NGL.

8 If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

Contents

1 The Commission has made a draft determination

This draft determination is to make a more preferable draft rule in response to a rule change request submitted by the Chair of the Energy Senior Officials Group and the Hon Lily D'Ambrosio MP, Victorian Minister for Climate Action, Minister for Energy & Resources and Minister for the State Electricity Commission (the proponents), on 8 July 2024.

The rule change request proposes rules designed to support a supply-side and demand-side last-resort function for the Australian Energy Market Operator (AEMO) to address threats to reliability and supply adequacy that market participants have been unable to resolve. This supplier of last resort (SoLR) function in the National Gas Rules (NGR) is intended to provide further guidance and guardrails to AEMO's east coast gas system (ECGS) trading function under the National Gas Law (NGL). This includes specifying under what circumstances AEMO would establish and activate the SoLR mechanism, how the SoLR mechanism would practically operate in the ECGS, and how costs would be recovered.

In response, the more preferable draft rule addresses the concerns identified in the rule change request with a mechanism that:

- sets out thresholds and requirements to be satisfied before AEMO may elect to use SoLR
- requires AEMO to source demand and supply SoLR responses through a competitive tender process
- provides guidance, including financial guidance, on how AEMO can deploy SoLR
- enhances the accountability and transparency requirements placed on AEMO.

We are seeking feedback on this draft rule.

This chapter outlines:

- the draft rule
- the importance of stakeholder feedback to making the draft rule
- the context in which this draft determination and draft rule has been made.

1.1 The draft rule guides AEMO's use of its ECGS trading function

In brief, the draft rule:

- Removes the current $35 million trading fund and associated rules.
- Introduces the SoLR mechanism that would enable AEMO to procure a range of supply and demand-side services to address threats to gas reliability and supply adequacy in the ECGS.
- Clarifies the SoLR mechanism is one of a number of tools available to AEMO to address threats to gas reliability and should only be used after industry responses are exhausted. If threats persist, AEMO should consider other tools it has available to manage these threats in the facilitated markets (for example, the Short Term Trading Market (STTM) contingency gas tool) prior to using SoLR.
- Links the establishment and activation of a SoLR reserve to the tiered risk or threat signalling framework included in the ECGS Enhancing reliability and supply adequacy arrangements (ERSAA) draft rule.
- Minimises any market distortions arising from the use of the SoLR mechanism. While the SoLR mechanism is intended to be used sparingly to address threats to gas reliability and supply adequacy, its use is intended to minimise impacts on normal market dynamics. Key arrangements to achieve this outcome include:

  - a high threshold (a tier 3 threat) is needed to use the SoLR mechanism
  - AEMO must conduct a competitive tendering process to identify the most appropriate SoLR supply or demand side resource to address a threat
  - a price limit on what AEMO can pay for SoLR services
- Requires AEMO to publish a set of notices to inform market participants when AEMO establishes, activates and ceases to use the SoLR mechanism.

The draft rule would not impact the system security-focused interim Dandenong LNG (DLNG) storage arrangements in the Declared Wholesale Gas Market (DWGM).[9] The SoLR mechanism is intended to co-exist with the interim DLNG arrangements. As currently provided by the NGR, when the DLNG interim arrangements cease in 2029, SoLR would continue to operate in the ECGS, including in the DWGM, to address threats to reliability and supply adequacy.

1.2 Stakeholder feedback shaped our draft determination

In developing the SoLR mechanism set out in the more preferable draft rule, we have considered all stakeholder feedback received. This includes prior consultation conducted by Commonwealth and jurisdictional officials, submissions to the consultation paper, other information provided by stakeholders and further meetings with stakeholders on relevant issues.

The key findings shaping the draft determination that the rule change request identified as problems requiring a regulatory response are:

- A majority of stakeholders agreed the existing NGL ECGS trading function needs further guidance and guardrails on its use. Stakeholders supportive of the intent of the rule change request included gas retailers, gas pipeline operators, storage providers and consumer groups.
- There is uncertainty on how threats to gas reliability and supply adequacy would be managed in the operational timeframe.

While many stakeholders agreed there is a problem, some noted that a key issue for the ECGS is a structural supply shortfall relating to the production and supply of gas to Australian consumers.[10] These stakeholders see increasing supply and unlocking investment — not a SoLR mechanism — as the best response to this issue. Addressing the structural shortfall issue is the focus of the Commonwealth's Gas Market Review and work on AEMO's extended investment powers for the ECGS. Nevertheless, there remains an opportunity to provide greater clarity for AEMO and certainty to industry participants on the ECGS trading function, as raised by the proponents.

The key feedback from stakeholders that shaped the design of the SoLR mechanism is that many stakeholders:

- supported a SoLR function where AEMO can provide an integrated solution to respond to a gas threat that involved procuring both supply and demand side services
- sought the inclusion of key guidance and transparency features in the SoLR mechanism, including:
  - principles in the NGR to guide AEMO's use of the SoLR function
  - that SoLR operate across the entire ECGS throughout the year
  - SoLR should link into the tiered risk or threat signalling framework
  - a beneficiary or causer pays cost recovery approach be applied, if feasible

9 AEMC, *Extension of the DWGM Dandenong LNG interim arrangements*, final determination, 30 October 2025.

10 Consultation paper submissions: APGA p 1; APLNG p 1; CS Energy p 2; Jemena p 1.

- strong transparency and accountability measures.

1.3 Making the draft determination in a changing landscape

1.3.1 The context of a changing gas sector

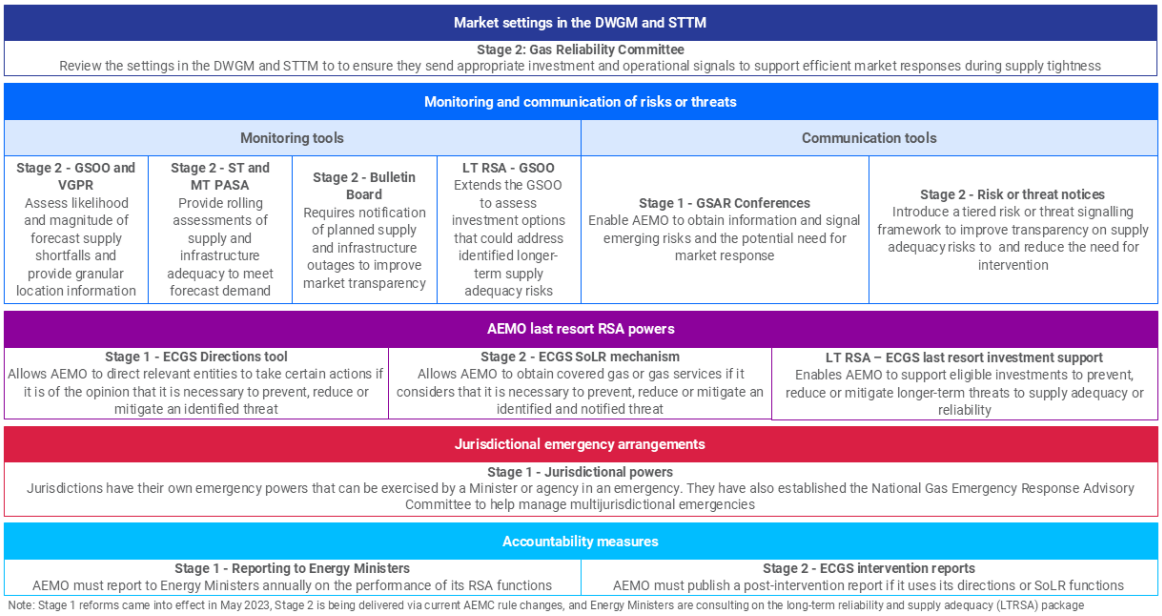
The SoLR rule change request is one of four in the stage 2 Reliability and Supply Adequacy (RSA) reform package.[11] Together, they seek to refine and build on the stage 1 reforms introduced in 2023, which established a reliability and supply adequacy framework for the ECGS.[12]

Since the lodgement of the stage 2 RSA rule change requests, governments have continued to work on reforming the gas sector. Of most relevance to this draft determination is a third reform package for the RSA framework (the LT RSA reforms) that, if implemented, would:[13]

- enable AEMO to support supply-side gas investments where required to address prolonged threats to the reliability or adequacy of gas supply and industry participants are unable to deliver the investment in time.
- extend the *Gas statement of opportunities* (GSOO) to include AEMO's assessment of actual or potential risks or threats to the reliability or adequacy of the supply of covered gas, and potential options to prevent, reduce or mitigate them.

The diagram below illustrates the full RSA framework for the ECGS, assuming that the stage 2 rules and the LT RSA reforms are made as they are currently described. As indicated, some tools within the framework interact with others.

Figure 1.1: Key components of the RSA framework



Note: Stage 1 reforms came into effect in May 2023, Stage 2 is being delivered via current AEMC rule changes, and Energy Ministers are consulting on the long-term reliability and supply adequacy (LTRSA) package

Source: AEMC.

In addition, the Commonwealth's Gas Market Review report was published in December 2025. The review's key recommendation is to replace the Australian Domestic Gas Supply Mechanism

11 The other stage 2 RSA rule change requests are: ECGS Notice of closure for gas infrastructure; ECGS Projected assessment of system adequacy and ECGS Enhacning reliability and supply adequacy arrangements.

12 AEMC, *ECGS reliability and supply adequacy rule change requests*, background paper, 20 March 2025.

13 ECMC, *Proposed extension of AEMO's east coast gas system reliability and supply adequacy functions*, consultation paper, 7 January 2026.

(ADGSM), heads of agreement (HoA) and key parts of the Gas Market Code with a domestic gas reservation scheme. This scheme could require LNG exporters to commit to supply a share of their production to the domestic market in return for the ability to export LNG. Complementary recommendations include changes regarding:[14]

- pricing — to remove the Gas Market Code reasonable price mechanism and make other changes to improve price competition and transparency
- market conduct and efficiency — amend the expression of interest provisions of the Gas Market Code and make other reforms to improve market liquidity
- market transparency — expand AEMO's reporting remit on the Bulletin Board in conjunction with improving information sharing arrangements between energy market bodies and the Australian Competition and Consumer Commission (ACCC) and minimising duplicative information collection regimes.

Some of the review's recommendations leverage the stage 2 RSA rules, particularly PASA. The Commonwealth anticipates progressing work on its recommendations over 2026.

1.3.2 Our draft determination supports gas sector reforms

In making this draft determination and draft rule, the Commission has considered the interaction with and impacts on the ERSAA rule change and the ECGS Projected assessment of system adequacy rule change (PASA).[15] This has meant assessing each draft rules' market and technical arrangements holistically and individually to best promote the NGO.

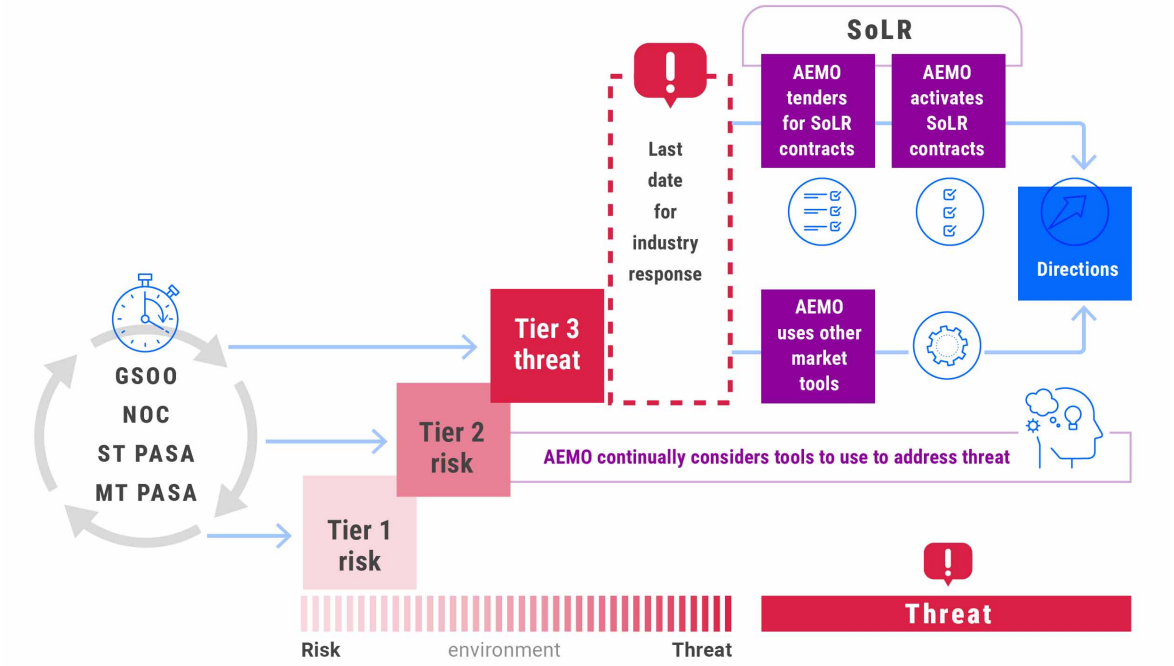
For example, this draft rule builds on the ERSAA draft rule, which sets out a tiered risk or threat signalling framework by linking AEMO's ability to use SoLR to a tier 3 threat in the ECGS. The ERSAA draft rule, in turn, utilises the reporting requirements as described in the PASA draft rule to inform AEMO of events that may be notified to industry participants through the tiered risk or threat signalling framework. As a result, the combined effect of the draft rules is a single, systematic framework that provides guidance to AEMO and industry participants about the nature of risks and threats, and, as relevant, the use of the SoLR mechanism.

The relationships between the three draft rules, and the ECGS Notice of closure of gas infrastructure (NOC) final rule, are illustrated in the diagram below.

14 DCCEEW and DISR, *Gas market review report*, 22 December 2025.

15 The ECGS Notice of closure of gas infrastructure (NOC) rule change process was completed on 11 September 2025.

Figure 1.2: Stage 2 RSA reforms: Relationship between NOC, PASA, ERSAA and SoLR draft rules



Source: AEMC.

In addition, the Commission has considered the context of other reforms with these stage 2 RSA rule changes. Specifically, the LT RSA reforms and Gas Market Review recommendations build on the proposed form of the stage 2 rule change requests. There are some differences in the details of the rule change requests and the draft rules. Also, the broader gas program and intersection of the various mechanisms with market body and participant obligations and rights warrants consideration. As such, the Commission remains alert to potential new developments for those ongoing reforms.

1.4 Next steps in this rule change process

Submissions to this draft determination and draft rule must be lodged with the AEMC by COB Thursday 23 April 2026 via the AEMC's website. There will be other opportunities to engage throughout the remainder of this process. If you wish to contact the team, please use the AEMC website project page (project code GRC0077).

Following consideration of submissions and other stakeholder feedback, the team will prepare a final determination and rule for publication on Thursday 25 June 2026.

2 The draft rule would contribute to the gas objective

The Commission's draft determination is to make a more preferable draft rule. This chapter sets out how our draft rule would promote the national gas objective (NGO), specifically the safety, security, and reliability of the gas system. The draft rule is also aligned with principles of market efficiency and principles of good regulatory practice.

2.1 The Commission must act in the long-term interests of gas consumers

The Commission can only make a rule if it is satisfied the rule will or is likely to contribute to the achievement of the relevant energy objectives.[16]

For this rule change, the relevant energy objective is the NGO:[17]

> to promote efficient investment in, and efficient operation and use of, covered gas services for the long term interests of consumers of covered gas with respect to—
>
> (a) price, quality, safety, reliability and security of supply of covered gas; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NGO.[18]

There are also a number of relevant legal requirements for the Commission to consider under the NGL when making a draft determination. These include whether to make a more preferable draft rule, whether the draft rule is compatible with AEMO's functions and whether the draft rule applies in Western Australia. Further information on these legal tests is set out in appendix B.

2.2 The draft rule would contribute to the NGO

As noted above, the Commission must evaluate the impacts of the various policy options against the NGO, using relevant assessment criteria, and taking into account stakeholder submissions and any other relevant information. It must also assess how the draft rule provides guidance and guardrails on AEMO's use of its ECGS trading function, to satisfy the criteria and contribute to achieving the NGO.

The following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NGO were used for this draft determination:

- **Safety, security and reliability:** whether providing greater regulatory prescription through a SoLR mechanism would help enable a safe, secure, and reliable gas system that would be in the long-term interests of consumers.
- **Principles of market efficiency:** whether the SoLR mechanism would facilitate a market-led response and incentives to address threats of gas reliability and supply adequacy, and in the

16 Section 291(1) of the NGL.
17 Section 23 of the NGL.
18 Section 72A(5) of the NGL.

limited circumstances that the SoLR mechanism is used, it would minimise market distortions and lower costs for consumers.

- **Principles of good regulatory practice:** whether the SoLR mechanism would promote transparency and predictability for AEMO, market participants and consumers, and be aligned with the direction of broader gas market reform.

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request within the NGO's scope. Our reasons for choosing these criteria are set out in Appendix A of the consultation paper.[19] Following stakeholder feedback on the consultation paper, the Commission is satisfied that the assessment criteria are fit for purpose.

The Commission has evaluated the impacts of the various policy options against the assessment criteria, taking into account stakeholder submissions. We have concluded the more preferable draft rule will better contribute to the achievement of the NGO than other options, including the proposal in the rule change request or maintaining the current arrangements, because:

- The establishment and activation of the SoLR mechanism is clearly linked to the tiered risk or threat signalling function in the ERSAA draft rule. This enables the PASA, ERSAA and SoLR rule changes to work as a connected suite of rules as intended for the stage 2 RSA reforms. Using the tiered signalling framework is more preferable than using the proposed gas reliability standard, as a risk or threat signalling function is more fit-for-purpose in an ECGS context.[20]
- It provides greater clarity on the hierarchy of interventions AEMO could use to address a threat to gas reliability and supply adequacy, establishing that market responses are prioritised over other gas interventions (for example, DWGM or STTM-specific tools) and before consideration of AEMO's ECGS trading function (as operationalised through SoLR) or directions powers. The SoLR mechanism is intended to be used sparingly as a last resort. This increased clarity is more preferable than the rule change request and the current arrangement, which do not provide this level of detail and guidance for AEMO.
- Compared to the current arrangements, it introduces additional guidance and guardrails that set clear boundaries around AEMO's use of its trading function, which reinforces the last resort nature of the trading function.
- The key SoLR design features set out the principles to guide AEMO's use of the mechanism, including a clear price limit and consideration of the impact on gas users. The SoLR price limit set at the DWGM market price cap (MPC) is more preferable than the rule change request's value of gas customer reliability and the current $35 million (adjusted by CPI) trading fund because it explicitly balances the need to induce additional SoLR responses beyond what the market normally provides against risks of market distortions, having regard to other aspects of the SoLR's design. This feature, combined with the greater guidance and guardrails in the SoLR mechanism, should result in net benefits to consumers.
- The operation of SoLR is designed to minimise market distortions through AEMO procuring SoLR services through a competitive tendering process. This is more preferable than the rule change request, which proposed AEMO participate directly in the ECGS. Using a competitive tender process would also support minimising the cost impacts of SoLR on gas consumers.
- The mechanism includes a clear set of notices to inform the market when AEMO establishes, activates and ceases to use the SoLR mechanism. The draft rule also imposes reporting requirements on AEMO. These aspects of the draft rule provide transparency and accountability to industry participants and governments about how SoLR is used. These

19 AEMC, *ECGS Supplier of last resort*, consultation paper, 25 September 2025.

20 AEMC, *ECGS Enhancing reliability and supply adequacy arrangements*, draft determination, 26 February 2026.

design features of the draft rule are more preferable than the rule change request as they streamline the set of notices between those from the risk or threat signalling function as set out in the ERSAA rule change request with the SoLR notices, while also improving the information provided to industry participants. The draft rule notice arrangements are also preferable to the current flat or non-tiered notice system, because they provide more practical information to industry participants to support well-informed decision making.

The discussion below sets out why the Commission considers the draft rule best promotes the long-term interests of consumers compared to other options, and why it meets the relevant criteria noted above.

2.2.1 Supporting the reliable operation of the ECGS

The Commission considers that providing comprehensive rules arrangements in the form of a SoLR mechanism would provide guidance and guardrails for AEMO on how to use its ECGS trading function to address threats to gas reliability and supply adequacy. This is expected to support the delivery of reliable gas services to gas consumers.

Reliability in the ECGS is about managing gas availability so that gas demand is met under normal operating conditions. It is intrinsically linked to supply adequacy, which requires having sufficient gas supplied from production, LNG import, and storage facilities, and having sufficient infrastructure capacity to deliver gas to those who seek it.

The NGL trading function given to AEMO in the stage 1 RSA reforms recognised there may be risks and threats to reliability and supply adequacy that could be addressed. However, minimal regulatory prescription on the ECGS trading function was provided in the NGR at that time.

Concerns over the minimal guidance are shared by the proponents, AEMO and market participants, who all support improved guidance and guardrails for the ECGS trading function.[21]

The draft rule directly responds to the request and this stakeholder feedback. It provides greater regulatory prescription in the form of the SoLR mechanism to address the identified problem of insufficient current guidance and guardrails for the ECGS trading function. In that regard, the Commission considers the draft rule is more preferable than the current arrangements. Key guidance and guardrails expected to promote reliability include:

- Clarity and certainty for AEMO and market participants on when AEMO would use its ECGS trading function in response to a threat to gas reliability. This includes clarifying that the hierarchy of responses would be led by industry participants to address these risks first, then AEMO to consider other tools to address the threat (for example, AEMO's functions in the DWGM and STTM), and where there has been an inadequate response and the threat persists, AEMO to use its trading function or directions power. In addition, there is an explicit linkage between the SoLR mechanism and the risk and threat signalling framework in the ERSAA draft rule. Greater clarity and certainty regarding responses to a threat to reliability and supply adequacy would support the reliable operation of the ECGS for the benefit of gas consumers.
- Greater guidance about how AEMO is to operate the SoLR mechanism, including using a competitive tendering process, and the price limit on the amount AEMO would pay for SoLR services, are expected to enable AEMO to more confidently use its ECGS trading functions to address and promote reliability.

21 Submissions to the consultation paper: AEMO, p 2; Alinta Energy, p 1; APGA, p 2; EnergyAustralia, p 1; GB Energy, p 1; Origin Energy, p 1; Shell Energy, p 1.

- Transparency to industry participants through notices issued by AEMO on when SoLR would be established, activated and cease to be used. Providing transparency and predictability would support any complementary industry responses to address threats to gas reliability and, as a result, promote greater reliability for gas users.

2.2.2 Enabling efficient market operations

The Commission considers the draft rule would promote market efficiency better than the current arrangements because it provides greater guidance and guardrails on AEMO's use of its ECGS trading function in the form of the SoLR mechanism.

Feedback from industry participants reinforced the view that the market should be the first to respond to any risks or threats to gas reliability and supply adequacy through prudent risk management under a mix of contractual and spot market activities.[22] The underlying concern from stakeholders was that if market participants expect AEMO to intervene when there is a threat to gas reliability, then this might create a 'moral hazard' where market participants take less care to address reliability threats themselves. Stakeholders also sought clarification on when AEMO would use its ECGS trading function in the context of its existing mix of tools or functions.[23] Designing a mechanism that would minimise market distortions and costs was also important for many stakeholders.[24]

In response to stakeholder feedback, the design of the SoLR mechanism, as set out in the draft rule, promotes market efficiency because it would:

- Provide greater clarity on AEMO's use of the ECGS trading function in the context of the other tools available to it, enabling industry participants, jurisdictions and consumers to understand the allocation of risks in the ECGS. The allocation of risk is intended to sit first and foremost with industry participants to address threats to gas reliability and supply adequacy, as this preserves their incentives to best address these threats and reflects that industry participants are best informed about their ability to respond to reliability risks and threats. When market response is inadequate and the threat persists, even after applying any other possible tools available to AEMO, then AEMO can consider using its ECGS trading function, by using SoLR.
- Minimise any market distortions on AEMO's use of the ECGS trading function through setting out:
  - the SoLR mechanism is lower down the hierarchy of responses to address a gas threat to reliability and supply adequacy
  - a high threshold to establish and activate the SoLR mechanism, which is linked to a tier 3 threat in the risk and threat signalling framework
  - AEMO must use a competitive tendering process rather than directly buying or purchasing gas or services in the ECGS.
- Include the following features, which are designed to ensure it is at least cost to consumers:
  - mandatory principles to guide AEMO's use of the SoLR mechanism
  - AEMO to consider the most appropriate mix of both supply and demand responses in establishing a SoLR service contract
  - AEMO to conduct a competitive tendering process so that responses from industry to provide SoLR services are subject to competitive downward pressure on costs

22 Submission to the consultation paper: AGL, p 1

23 Submissions to the consultation paper: Alinta Energy, p 2; APA, p 8; AGL, p 4.

24 Submissions to the consultation paper: Alinta Energy, p 2; APLNG, p 2; APA, pp 9-10; EnergyAustralia, p 2; AGL, p 3.

- a limit on how much AEMO should pay for SoLR service contracts.

2.2.3 Aligning the draft rule with good regulatory practice principles

The Commission considers the draft rule would be aligned with principles of good regulatory practice because it enhances the transparency and predictability of AEMO's use of its ECGS trading function and is consistent with the direction of broader gas market reforms.

There was widespread stakeholder support for greater transparency and accountability measures surrounding AEMO's use of its ECGS trading function.[25] Key matters raised by stakeholders on regulatory practice include:

- principles are needed in the NGR to guide AEMO's use of the SoLR mechanism
- the existing triggers for the current trading fund lack transparency and clarity, creating uncertainty and making it a significant issue[26]
- there is a greater need for transparency in the NGR about cost recovery[27] and AEMO's reporting arrangements after it has used the SoLR mechanism.[28]

Having considered this stakeholder feedback, the Commission has designed the SoLR mechanism with the following features to enhance transparency and predictability compared to the current arrangements:

- mandatory principles that constrain AEMO's discretion on when it uses the SoLR mechanism
- establishing and activating the SoLR mechanism is clearly linked to the tiered risk and threat signalling framework to provide transparency about when SoLR would likely be used and under what circumstances
- greater specificity on how costs would be recovered and proceeds would be distributed
- using a set of notices to inform industry participants on when SoLR would be used by AEMO
- requiring AEMO to provide operational details on the SoLR mechanism in the ECGS Procedures
- clearer and regular reporting requirements for AEMO to inform industry participants on its use of the SoLR mechanism.

The draft rule is also consistent with the direction of broader gas market reform. The Commission has considered this rule change request with the other stage 2 RSA rule change processes underway: the PASA rule change request and the ERSAA rule change request. It has sought to connect this draft rule with those other rule changes where appropriate. For example, the expected information on gas supply-demand imbalances established by the PASA rule would be one of the inputs to the risk and threat signalling framework in the ERSAA rule change request, which, in turn, would be the basis for triggering the use of the SoLR mechanism (when there is a tier 3 threat).

The Commission has also considered making this draft rule in the context of other government reforms, namely the Commonwealth's Gas Market Review and the Energy and Climate Ministerial Council (ECMC) work on LT RSA reforms that anticipate enabling AEMO to support investments in gas infrastructure.[29]

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25 Submissions to the consultation paper: APA, p 6; APGA, p 7; Alinta, p 2; EUAA, p 4.

26 Submissions to the consultation paper: EnergyAustralia, pp 1-2; APLNG, p 2.

27 Submissions to the consultation paper: Alinta, p 4; Shell Energy, p 4.

28 Submission to the consultation paper: EUAA, p 4.

29 Department of Climate Change, Energy, the Environment and Water (DCCEEW) and Department of Industry, Science and Resources (DISR), *Gas market review report*, 22 December 2025, accessed 6 February 2026; ECMC, *Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions*, consultation paper, 7 January 2026, accessed 6 February 2026.

3 SoLR includes demand and supply options

The Commission has made a draft rule that would establish the SoLR mechanism as an integrated demand- and supply-side last resort mechanism. This differs from the existing trading fund arrangements in many ways, but most notably in AEMO's ability to procure administered demand response. Stakeholders were broadly supportive of making the option available to AEMO, while noting that the inclusion of administered demand response would be challenging. These challenges relate to several factors, discussed in the consultation paper.[30]

This chapter discusses the inclusion of administered demand response alongside supply options in SoLR, and details how this will be integrated into the mechanism. This includes discussion of the following:

- Section 3.1: Outlining the proposed SoLR response options
- Section 3.2: Explaining that both a supply-side and demand response should be part of SoLR
- Section 3.3: Considering competitive tendering to source potential options for SoLR
- Section 3.4: Noting that AEMO would have flexibility in paying for SoLR services

An outline of the draft rule discussed in this chapter is provided in the box below.

Box 1: Draft rule on demand and supply options

The draft rule sets out that:

- Acting as the supplier of last resort, AEMO can use demand and supply-side responses to alleviate a tier 3 threat. AEMO will be able to contract with parties to make gas available through demand and/or supply side responses through a competitive tendering process.
- AEMO will have flexibility in how it makes payments to supply and demand response providers in accordance with their contract.

3.1 Proposed SoLR response options

The rule change request proposed that the NGR could establish a "Storage SoLR reserve" or an "Other SoLR reserve". The Storage SoLR reserve could include, in one or more storage facilities, underground, LNG storage and/or longer term pipeline storage. The Other SoLR reserve could comprise covered gas, infrastructure services (including shorter term pipeline storage services), demand response services, or a combination of these.

The rule change request proposed procuring a SoLR reserve through either a contracting method or a direct-to-market approach. Under the proponents' preferred options :[31]

1. AEMO could establish a SoLR reserve by contracting with parties at any time (if a reserve establishment notice has been published) and through a competitive tender process if time permits. Parties would not be paid to be on the SoLR 'panel' (if created). Details to be in the ECGS Guidelines.
2. AEMO could establish a SoLR reserve by buying from a gas facilitated market. For the STTM and DWGM, submit bids to withdraw gas at the market price cap. For the GSH and DAA, use a broker to buy gas.

30 AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, 25 September 2025, chapter 7.

31 Rule change request, p 11.

For demand response, the proponents proposed AEMO would be responsible for establishing and administering a panel of demand response providers. They proposed the panel could be established through a competitive tender process open to large gas users and other demand response providers (for example, retailers) on the east coast, with panel members paid for reducing consumption if the tool is triggered.[32]

3.2 Both supply-side and demand response should be part of SoLR

As noted above, a key question raised by the rule change request was whether a SoLR mechanism should include, or be accompanied by, an administered demand response mechanism. The Commission's draft determination is that the SoLR mechanism includes both demand- and supply-side responses.

3.2.1 SoLR would provide supply-side services

Stakeholder submissions to the consultation paper questioned where the gas to be supplied for the SoLR mechanism would be sourced from.[33] In times of gas shortfall threat, AEMO acting as a supplier of last resort, could source:

- contracted gas or gas services (for example, storage) from industry participants holding non-firm contracts
- uncontracted gas or gas services.

3.2.2 Stakeholders supported including demand response in SoLR

Nine of the 15 stakeholders who responded to the consultation paper supported integrating demand response into a potential SoLR mechanism. Origin noted the benefits of this approach, commenting that "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."[34]

However, two stakeholders supported maintaining the status quo (relying on the NGL provisions for AEMO's trading function) and introducing a new standalone demand response mechanism.[35]

Some stakeholders noted the challenges of implementing an administered demand response mechanism and expressed doubts about how much gas could actually be made available through it.[36] EUAA was unsupportive of administered demand response on the basis that only a relatively small amount of gas could be available.[37] In its submission, EUAA also:[38]

> disagree with the suggestion that consumers should need to respond to reliability issues caused by inadequate infrastructure, supply or gas producer preferences[…] should [the] AEMC proceed with a gas demand response register, we do not see the level of registrations being at the level that AEMO or AEMC expect, and definitely not enough to prevent a LoS [Loss of Supply] scenario

32 Rule change request, p 29.
33 Submissions to the consultation paper: APLNG, p 2; AGL, p 2.
34 Submission to the consultation paper: Origin Energy, p 4.
35 Submissions to the consultation paper: APLNG, pp 1-2; Alinta Energy, p 3.
36 Submissions to the consultation paper: GB Energy, p 12; EUAA, p 4; Origin, p 2.
37 Submission to the consultation paper: EUAA, pp 4-5.
38 Submission to the consultation paper: EUAA, pp 4-5.

While some stakeholders noted the complexities of implementing administered demand response, most supported, to varying degrees, including demand response as an option for AEMO to respond to threats through the SoLR mechanism. Stakeholders stressed that administered demand response under a SoLR mechanism should be included only as a voluntary mechanism.

3.2.3 Commission's assessment on including demand response

Having regard to stakeholder views and our assessment criteria, the Commission has included administered demand response in the SoLR draft rule. This is integrated with supply responses to provide a single, integrated last resort response mechanism for AEMO.

By including the demand side of a last resort response mechanism in the draft rule, the Commission aims to implement a low-cost, low-complexity mechanism with voluntary participation, so that the potential benefits are expected to outweigh the potential costs. This is consistent with good regulatory practice and implementation considerations.

The implementation and operational costs of integrating supply and demand responses would likely be lower than those of a standalone administered demand response mechanism, because of synergies in developing and maintaining processes for both the supply and demand sides together, rather than separately.

By enabling AEMO to seek out supply-side and demand-side options to address gas reliability and supply adequacy threats in the ECGS, there should be improved reliability outcomes for gas consumers. Enabling AEMO to use demand response to address a reliability threat rather than a potentially supply-side option could also increase market efficiency by best allocating resources, given demand is not always price sensitive due to long term contracts. Including demand response in SoLR also aligns with emissions reduction goals of governments (and therefore contributes to the achievement of the NGO) because demand response where energy usage is decreased, as opposed to fuel switching, is zero emissions.

As an integral part of SoLR, AEMO's use of administered demand response to address reliability and supply adequacy threats would be guided by other aspects of the draft rule and the ECGS Procedures.

By providing guidance and guardrails on AEMO's use of the administered demand response mechanism, AEMO and industry participants will obtain greater transparency and clarity than the current trading function or the proposed panel arrangements would provide. Further, by having the same approach for both supply- and demand-side options, there should be greater consistency and simplicity as both options are considered together in AEMO's decisions. This also allows for improved coordination between demand and supply side responses to address a reliability threat gas shortfall.

For these reasons, this approach better achieves the NGO than supplementing the NGL trading function with a separate administered demand response mechanism.

3.3 Competitive tendering will source potential responses

The proponents proposed the demand response aspect of the SoLR mechanism make use of a panel of demand response providers. In contrast, the draft rule requires AEMO to use a tendering process that enables bids from both supply and demand side responses to address a threat.[39] The

39 Draft rules 699C and 699I.

Commission considers this integrated tendering approach would be more effective and less costly than a standing panel of demand response only providers.

3.3.1 Stakeholder views on sourcing demand response

As the competitive tendering model for supply- and demand-side contracting was not canvassed in the consultation paper, there is limited direct stakeholder feedback on it. The suggestion to use a single tendering approach came from AEMO, who noted:[40]

> 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.

Other stakeholders expressed a preference for an administered demand response panel, with Origin noting, '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'.[41]

In contrast, Alinta Energy preferred ad hoc contracting, which, like the tendering model, is a more tailored approach to addressing threats. Further, the concept of a tender for an intermediary was supported more broadly, indicating industry appetite for this model in the SoLR mechanism. The details of the contract tendering process are in chapter 6.

Where additional supply cannot be sourced through the tendering process, AEMO should proceed with using one or more of the other tools it has available to address a reliability threat (for example, directions powers).

3.3.2 Commission's assessment on using a competitive tender

The cost of establishing a standing panel of demand response providers, as proposed in the rule change request, is likely to outweigh the benefit it would provide. This is in large part because the SoLR is intended to be a last resort mechanism; therefore, it is unlikely the panel would be called upon often enough to warrant the cost to AEMO of establishing multiple contracts across the ECGS. This would be exacerbated by the fact a standing demand response panel would necessarily be general in nature, potentially leaving AEMO unable to address a specific threat upon its emergence.

In addition, given the barriers to providing flexible demand in the ECGS, establishing a panel may be difficult without a strong payment incentive or an indication that investment in making demand flexible will be financially rewarded (noting this was not proposed in the rule change request). By having demand response providers bid as part of a tender process, AEMO can assess each option for that location and threat level on a case-by-case basis, using information that is up to date with the tender. Further, the tender process allows prospective providers to tailor their bids to address a specific threat, enabling AEMO to select more targeted responses.

By avoiding the need to establish demand response panels across the ECGS or only in certain regions, the draft rule provides a simpler framework for identifying supply and demand solutions to reliability threats identified. This could also reduce implementation costs compared to the rule

40 Submission to the consultation paper: AEMO, p 2.
41 Submission to the consultation paper: Origin Energy pp 4-5.

change request's panel proposal, which would likely have required ongoing administration by AEMO.

Using a competitive tender process for both supply and demand side solutions aligns with market efficiency, as it enables efforts to identify, prepare, and contract for flexible demand only when SoLR contracts are required.

It also offers success as a market-wide solution by enabling AEMO to select the most appropriate resources for the location with the identified threat, in contrast to a standing panel that may not be geographically located appropriately to respond.

By integrating supply and demand contracts into one tendering mechanism, it is not necessary to implement the proposed 'SoLR reserve' and 'Other SoLR reserve' categories, as each SoLR service will be distinguished by its respective contract. This aligns with the tendering approach and provides a simple way of distinguishing the types of contracts created under the SoLR mechanism. The details of the contract type and how providers must demonstrate their reduction in demand relative to their baseline will be addressed in AEMO's ECGS Procedures.[42]

3.4 AEMO would have flexibility in paying for SoLR services

The Commission's draft determination is that an availability payment should be permitted to provide sufficient incentive for potential demand response providers to bid their flexible load into the SoLR competitive tendering process.

This differs from the rule change request, which states that 'relevant entities are not to be paid to be on the SoLR Panel'.[43] While there may be concerns about the cost of making availability payments to demand response providers, doing so could help overcome some barriers to demand response. As detailed in the rule change request's summary of Acil Allen's *2023 report on gas demand management,* the barriers to providing demand response include, but are not limited to:

- the opportunity cost of lost production and the impact on their supply chain, particularly where downstream customers have time-sensitive and critical uses
- environmental factors where a turn down or shutdown would result in additional emissions due to the changing of feedstock and operational processes
- safety and operational issues involved in cutting back or shutting down production
- operational factors that determine when maintenance must be scheduled, and
- additional investment to enable greater flexibility in energy supply to the plant.

3.4.1 Availability payments received some stakeholder support

Stakeholders, including Alinta Energy and AGPA, supported inclusion of an availability payment for the provision of administered demand response because it could incentivise large consumers to overcome barriers to providing demand response.[44]

Contrary to this view, Shell Energy and APLNG did not support an availability payment. APLNG noted that: [45]

> while an availability fee could help encourage participation in an administered demand response mechanism, APLNG does not believe it is cost-effective solution. This is primarily

42 Draft rule 699E.
43 Rule change request, p 25.
44 Submissions to the consultation paper: Alinta Energy, pp 4-5; APGA, p 7.
45 Submission to the consultation paper: APLNG, p 11.

due to the infrequent nature of supply shortfall events and the practical challenges of aligning the demand response to the specific locations affected. Paying participants regardless of whether their services are used would be inefficient and is not in the interests of consumers.

The EUAA noted that as many consumers 'are either "all on" or "all off", the incentive cost would be for an entire production line or plant, and not just simply slowing production' and as such the financial incentive for demand response would have to be larger than the opportunity cost for consumers to participate.[46]

3.4.2 Enabling demand response providers to receive availability payments

The Commission acknowledges allowing availability payments may add to the cost of operating SoLR. However, the benefit of these payments is they may result in greater participation in SoLR than would otherwise occur. It is important to provide a sufficient incentive for large gas consumers to make the required investments to ensure their gas is flexible enough to bid into the SoLR tendering process. Without an availability fee, participants who enter into a contract with AEMO may never be paid for making their demand flexible, even though they are likely to incur a cost to unlock their potential demand flexibility.

In addition, providing an availability payment to support demand side participation in SoLR, may encourage investment in flexible demand. The Commission also considered payments provided for demand response providers in the Reliability and Emergency Reserve Trader (RERT) in determining whether to allow availability payments, noting that RERT has many differences to the draft rule. This model showed there may be benefits in incentivising participation.

On balance, having considered stakeholder views and information about the operation of existing administered demand response mechanisms, the Commission's draft determination is that the NGR should not prevent demand response participants in the SoLR mechanism from receiving a payment for participating, or being available. The availability fee would be paid only as part of an established SoLR contract. As a result, the payment of availability fees would likely be infrequent, occurring only when a SoLR contract is in place after a threat has been identified. These requirements mitigate concerns about potential high costs compared to the proposed use of an ongoing demand response panel where availability payments would be an ongoing outlay. The details of an availability fee will be subject to the contract conditions negotiated by AEMO and the SoLR service provider. For these reasons, the draft rule does not include any provisions that prevent demand response availability payments being made.[47]

3.4.3 Providing discretion to AEMO on SoLR contracts

Related to the issue of demand side availability payments is the question of how AEMO pays for SoLR service contracts arising from the competitive tender process. That is, if demand response contracts can have fixed and variable payments, should this also be permitted for supply-side contracts. Aspects of the draft rule that are relevant to considering this issue are:

- there is no administered demand response panel
- AEMO's SoLR competitive tender processes are to seek out both demand and supply side responses to a reliability threat

46 Submission to the consultation paper: EUAA, p 4.

47 The SoLR service price limit, discussed in section 4.6, allows for both fixed and per-GJ payments under SoLR service contracts, and the limit would be applied taking both of these types of payments into account. See draft rule 699A(3).

- the SoLR service price limit, which limits what AEMO should pay for SoLR services, is set at the DWGM market price cap — see section 4.6.

Providing guidance to AEMO that creates a difference regarding how demand response providers are paid for their services (compared to supply services) would likely create administrative complexity and costs inconsistent with good regulatory or implementation practices. As a result, while the initial issue was whether to pay participants of a demand response panel, the Commission has extended this assessment to determine AEMO should have discretion to agree to different payment approaches under SoLR contracts. This may include both fixed and per-GJ amounts for both supply and demand response services. Further, potential SoLR service providers would have flexibility in how to frame their tenders and contract with AEMO to suit their circumstances and the SoLR service they are intending to provide. As a result, the draft rule does not specify any requirements regarding the form of payments made by AEMO to SoLR service providers (other than being no higher than the SoLR service price limit).

4 Key design features of the SoLR mechanism

To address reliability and supply adequacy threats in the ECGS, SoLR includes key design features that aim to guide AEMO and stakeholders on its use. This chapter outlines key design features of the draft rule's SoLR mechanism, including:

- Section 4.1 Outlining the key design features in the rule change request
- Section 4.2 Outlining the principles that would guide AEMO's use of the mechanism
- Section 4.3 Describing the contracted services AEMO would be able to procure
- Section 4.4 Outlining that SoLR would operate across the ECGS throughout the year
- Section 4.5 Illustrating how the SoLR mechanism would operate alongside the existing DWGM Dandenong LNG interim storage facility arrangements
- Section 4.6 Detailing the price limit AEMO on what would pay for SoLR contracts.

An outline of the draft rule discussed in this chapter is provided in the box below.

Box 2: Draft rule on key design features

The draft rule:

- Sets out five principles AEMO must have regard to when establishing a SoLR service contract and activating, or using, a SoLR service contract.
- Includes a financial upper price guide to limit AEMO on how much it should pay per GJ for SoLR contracts. The limit has been set at the DWGM MPC .
- Allows AEMO to enter into contracts with one or more persons for specific services (in accordance with its procedures).
- Allows AEMO to use SoLR across the ECGS at any time of the year.
- Does not amend the Dandenong LNG storage facility interim arrangements.

4.1 Proposed key design features

The rule change request proposed several key design features. These were:

- guiding principles AEMO would apply when establishing or using the SoLR reserve. Including:
  - actions taken should:
    - be those AEMO reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the ECGS
    - aim to maximise the effectiveness of the SoLR reserve at least cost to gas consumers
  - the average amount payable by AEMO for each GJ should not exceed the estimated average value of gas customer reliability (VGCR) for the location the SoLR reserve has been established for (AEMO's proposed cost constraint)
- establishing two types of reserves:
  - Storage SoLR reserve where gas is placed in storage and used where required to address a threat to reliability and supply adequacy
  - Other SoLR reserve which involves gas services other than storage and encompasses pipeline, compression, blend processing and demand response services
- the mechanism would operate as an ECGS wide tool

- not seeking to amend the DLNG last resort mechanism.

The following sets out an assessment of each, having regard to relevant stakeholder feedback and other information.

4.2 Guiding AEMO's use of SoLR

In response to the consultation paper, stakeholders identified a need to provide a clear framework in the NGR to guide AEMO's use of SoLR. This includes mandatory principles AEMO must have regard to when establishing a reserve and using a SoLR mechanism.[48] Together with clear triggers and preconditions (chapter 5), principles would provide further guardrails and clarity to guide AEMO and help prevent market distortions.

The draft rule sets out five principles AEMO must have regard to when establishing a SoLR reserve and activating, or using, a SoLR reserve.[49] The rule change request proposed three principles.[50] See table below for a comparison of proposed principles in the rule change request and the draft rule principles.

Table 4.1: Comparison of SoLR principles

Proposed SoLR principles	Draft rule SoLR principles	Rationale
Actions taken by AEMO should be those AEMO reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the east coast gas system	Actions taken by AEMO should be those AEMO reasonably expects to have the least distortionary effect on the operation of the east coast gas system	This is an important principle for AEMO to consider. This promotes principles of market efficiency, as it helps provides guidance on an appropriate balance between market operations and SoLR.
Actions taken by AEMO should aim to maximise the effectiveness of the SoLR reserve at least cost to gas consumers	Actions taken by AEMO should aim to maximise the effectiveness of SoLR to address the threat to reliability at least cost to gas consumers	This is an important principle for AEMO to consider. It helps promote principles of market efficiency, and is in the long-term interest of consumers by requiring AEMO to consider cost-effective outcomes for consumers.
The average amount payable by AEMO for each GJ should not exceed the estimated average VGCR for the location the SoLR reserve has been established for.	Amounts payable by AEMO should be less than the price limit set at the DWGM MPC (taking into account both fixed and variable costs)	A price limit is an important principle. We have considered alternatives and the draft rule price limit differs to the one proposed. See section 4.6 below.
	Actions taken by AEMO should, to the extent practicable, be consistent with the targets statement	While not proposed as a principle, the proponent recommended that AEMO should also have regard to the

48 Submissions to the consultation paper: GB Energy, pp 2-4; Shell Energy, p 2; APLNG, p 3; EnergyAustralia, p 2; APA, pp 9-10.

49 Draft rule 699A.

50 Rule change request, p 33.

Proposed SoLR principles	Draft rule SoLR principles	Rationale
		greenhouse gas emission targets set out in the targets statement when establishing a reserve. The Commission has included this as a guiding principle, as it is an important overarching concern AEMO should take into consideration balanced against the likelihood of a reliability threat.
	Actions taken by AEMO should not compromise safety	This is a current trading function principle, and was supported by stakeholders. This should be included as a principle, because safety should be an important consideration for AEMO when considering the reliability of the ECGS. Compromises to safety may have significant implications for infrastructure and gas users.

Source: Rule change request, p 33; Draft rule 699A.

Stakeholders consider that:

- The principles should be mandatory,[51] but discretion should be given to AEMO where the market is not providing the desired outcome.[52]
- In addition to principles, more prescriptive obligations should be included in the NGR to ensure operational clarity and reduce the risk of inconsistent application. This would help provide clarity on how the SoLR mechanism should function and ensure interventions remain a genuine last-resort measure.[53]

The Commission considers mandatory principles would provide certainty to AEMO and stakeholders, by providing added transparency around how AEMO would use SoLR. The principles would operate as one aspect of a set of prescriptive measures, including triggers, procurement, and operational sequencing, which together would provide guardrails for the mechanism. Together with other design features (see chapter 5 and section 7.7) AEMO would retain enough flexibility to determine whether it should establish SoLR and whether it should subsequently use it in response to a threat to reliability.

Additionally, while agreeing with the proposed principles, some stakeholders suggested additional principles:

51 Submissions to the consultation paper: Shell Energy, p 2; EnergyAustralia, p 2.
52 Submission to the consultation paper: GB Energy, pp 2-4.
53 Submissions to the consultation paper: Shell Energy, p 2; APLNG, p 3; EnergyAustralia, p 2.

- provide industry a reasonable time to address a risk or threat, because market-driven solutions are preferable to interventions[54]
- safety should not be compromised[55]
- distortionary impacts should be minimised, but AEMO could experience practical challenges in assessing and minimising distortionary impacts arising from its SoLR activities[56]
- the average capital exposure (rather than amount payable) by AEMO for SoLR should not exceed the average VCR for the region.[57]

Stakeholders also suggested the current ECGS trading function and RERT principles should be considered in the SoLR principles.[58]

On these suggestions, the Commission considers that:

- while market-driven solutions are preferable to interventions, this preference does not need to be a principle because it is already an inherent design feature of the SoLR mechanism. This has been achieved by linking the use of SoLR to the tiered risk and threat signalling framework, which also provides a clear market notice framework to give industry sufficient awareness and time to respond (see chapter 8)
- safety not being compromised should be included as a principle, as detailed in table 4.1
- design features of the mechanism, including tiered threat signalling and the price limit, are designed as guardrails to minimise AEMO's distortionary impact and preserve current market incentives, as detailed further in table 4.1
- the price limit should be capped at the DWGM MPC, because this balances the need to induce additional demand against risks of market distortion such as economic withholding (section 4.6.2 below)
- the SoLR principles are similar to and have been inspired by the ECGS trading function and RERT principles.

Shell Energy also suggested it may be appropriate for the NGR to delegate oversight of compliance with the principles to the proposed gas reliability committee (GRC).[59] This may include giving that committee the power to require changes to AEMO procedures and guidelines in response to external review or stakeholder feedback.[60]

Consistent with the ERSAA draft rule, the intent of the proposed GRC is to carry out future reviews of the market price settings, not operational compliance. Additionally, AEMO would be the most appropriate body to amend its own procedures and guidelines, in consultation with stakeholders, as it currently does under the NGR.

Collectively, the SoLR principles would provide guidance to AEMO and act as a further set of guardrails on AEMO's use of the SoLR mechanism, promoting principles of market efficiency in the long term interests of consumers. The principles would provide greater certainty than the status quo for AEMO and market participants, yet afford some discretion and flexibility for AEMO to choose a course of action in line with those principles and other design features. A principles-based approach would align with a SoLR mechanism designed to address risk, involving

54 Submission to the consultation paper: GB Energy, pp 2-4.
55 Submissions to the consultation paper: GB Energy, pp 2-4.
56 Submissions to the consultation paper: GB Energy, pp 2-4; APA, pp 9-10; APLNG, p 3.
57 Submission to the consultation paper: GB Energy, pp 2-4.
58 Submission to the consultation paper: GB Energy, pp 2-4.
59 More on the proposed GRC can be found in the ERSAA Draft determination, chapter 4.
60 Submission to the consultation paper: Shell Energy, p 2.

probabilities on when and how it would be used. This principles-based approach is complemented by other prescriptive arrangements which provide predictability and stability and good regulatory practice.

4.3 A range of SoLR services will be available to AEMO

The draft rule would allow AEMO to enter into contracts with one or more persons for the following services, which reflects the rule change request (see below):[61]

- the sale or supply of covered gas
- pipeline services (including transportation, delivery or haulage of covered gas and pipeline capacity related services)
- storage of covered gas
- administered demand response.

Stakeholders also supported:

- the NGR identifying and defining the particular types of services that would be available to AEMO[62]
- AEMO should be able to seek the most flexible services for any potential scenario, but consider that storage is a service that provides the greatest flexibility[63]
- demand response, but considered that its role may be limited.[64]

However, some stakeholders cautioned against:

- AEMO being able to contract all available services, such as compression, storage or pipelines – or reserve capacity – even if intended as a reliability measure. This is because it would risk crowding out commercial contracting and undermine efficient market operations.[65]
- Direct investment in infrastructure by AEMO, unless there is an extraordinary circumstance with clear market failure, and in this instance direct investment should only be an interim solution transitioning back to market supported services.[66]

The Commission has considered these views and notes:

- Identifying the types of services AEMO may contract in the NGR is an important guardrail for the operation of SoLR and should provide certainty and clarity to gas market participants about what services can be sought by AEMO when conducting a competitive tender. However, the draft rule does not require AEMO to always contract for each of the listed services. Instead, the draft rule provides AEMO flexibility to determine the services it may contract for (and with whom it may contract) in light of the particular threat under consideration, so AEMO can find the solution that is technically fit for purpose.
- While demand response may have a limited role to play at present, that is not a reason to exclude it as an option, especially considering it would be a voluntary mechanism. By including the demand side in the draft rule, the Commission seeks to implement a low-cost, low-complexity mechanism with voluntary participation, with the potential benefits expected to outweigh the potential costs. This is consistent with good regulatory practice and implementation considerations. See chapter 3 for more information.

61 Draft rule 699C.
62 Submission to the consultation paper: APA, p 10.
63 Submission to the consultation paper: GB Energy, p 4.
64 Submissions to the consultation paper: GB Energy, p 4; EUAA, p 4.
65 Submission to the consultation paper: EnergyAustralia, p 2.
66 Submission to the consultation paper: GB Energy, p 4.

4.3.1 AEMO considers it is currently unable to contract LNG for SoLR purposes

AEMO considers that under the current ECGS RSA framework, it does not have explicit powers to trade or contract in LNG (as LNG may not come within the definition of 'covered gas'). AEMO recommended that the NGL be amended to allow trading in LNG where necessary.[67]

The Commonwealth and jurisdictions are currently consulting on introducing another RSA tool for AEMO to use to support supply-side investments in gas. This is called the long term reliability and supply adequacy tool (LT RSA) and would be implemented through a Ministerial law, rule and regulation package.[68] The LT RSA package proposes, among other things, to:

- clarify the scope of AEMO's ECGS functions to specify that AEMO may also trade in LNG
- expand the definition of relevant entities as it relates to AEMO's ECGS directions powers to include LNG service providers and suppliers
- allow AEMO to invest in LNG import facilities.

On this basis, the draft rule does not include any specific provisions regarding the use of LNG. The Commission may reconsider this in light of the development of the LT RSA reforms, if required.

4.3.2 AEMO would not have separate types of SoLR reserves

The proponent proposed rules where the services would be described as reserves and grouped as:[69]

- 'Storage SoLR reserve', where gas is placed in storage and used where required to address a threat to reliability and supply adequacy
- 'Other SoLR reserves', which involve gas services other than storage and encompasses pipeline, compression, blend processing, and demand response services.

The categorisation enabled the proponents to then propose specific requirements, such as preconditions, for each. Stakeholders did not provide specific feedback on the proposed categorisation of services into two types of reserves.

The Commission considers categorising reserves as the proponent recommended would not provide any material benefit because:

- it is not recommending different preconditions or triggers for different services
- the pricing structure for various services is universally subject to the price limit and broader principles
- AEMO is only able to contract for a service when it issues a tier 3 risk notice, AEMO has no discretion to determine additional lead time outside of this, see chapter 8
- AEMO will be able to tailor the procurement approach in the tendering process, see chapter 3.

On this basis, the draft rule has not implemented the proposed SoLR reserve types. The Commission is satisfied the draft rule in this respect would best promote the NGO through being consistent with good regulatory practice as it provides guidance on potential SoLR services needed without additional administrative or regulatory requirements.

67 Submission to the consultation paper: AEMO, p 4.
68 ECMC, *Proposed Extension of AEMO's East Coast Gas System Reliability and Supply Adequacy Functions*, consultation paper, 7 January 2026.
69 Rule change request, p 34.

4.4 SoLR would be available across the ECGS throughout the year

The draft rule, in line with the rule change request and stakeholder feedback, makes SoLR available to AEMO to operate across the ECGS at any time of the year.[70]

Stakeholders generally supported SoLR operating across the entire ECGS and throughout the year, because:

- threats can emerge anywhere in the ECGS and at any time[71]
- the interconnected nature of the market means events in one part of the market or jurisdiction can impact the entire market, e.g. a threat in a northern jurisdiction, such as a coal-fired power station outage, could cause issues across the entire ECGS[72]
- reliability intervention arrangements should be as consistent as possible across the ECGS to help provide clarity on how the mechanism works, otherwise parts of the ECGS could be subject to interventions which could distort investment signals or cause other unintended consequences.[73]

However, APLNG argued the mechanism should be constrained to the winter months in southern jurisdictions because that is where reliability issues are forecasted to occur.[74] Lochard Energy also cited concerns about implementation challenges, proposing the initial focus of the mechanism should be for winter months in southern jurisdictions, with progressive implementation across the ECGS.[75]

The draft rule SoLR mechanism is intended to provide clarity and guardrails, in contrast to the trading function, and a mechanism that operates consistently across the ECGS and throughout the year would help achieve this. Additionally, the interconnected nature of the ECGS could mean an event in one part of the system could have flow-on effects to other parts. This suggests it would be prudent for AEMO to have tools available at all times and in all locations. For these reasons, the draft rule provides SoLR can be used across the ECGS at any time of the year. The Commission does not agree with staged or limited implementation, as SoLR should operate with clarity across the ECGS from the beginning. However, as there could be some complexity in implementation, this should be accounted for when AEMO is consulting on procedures and guidelines, see chapter 9.

4.5 SoLR would co-exist with the Dandenong LNG interim arrangements

As discussed in the consultation paper, the Commission has considered the likely interaction between the SoLR mechanism and the DWGM Dandenong LNG (DLNG) storage facility interim arrangements. Our draft determination is that there is no need for the SoLR draft rule to address any interactions between the mechanisms. The Commission has also considered whether this rule change could provide an enduring solution to the current interim DLNG arrangements.[76]

In submissions to the consultation paper, stakeholders provided the following observations:

- The SoLR mechanism would operate more flexibly based on identified threats compared to the mandatory procurement of uncontracted gas capacity under interim DLNG arrangements.[77]

70 Draft rule 699B.
71 Submission to the consultation paper: AEMO, p 2.
72 Submission to the consultation paper: GB Energy, pp 5-6.
73 Submissions to the consultation paper: Shell Energy, p 2; APA, p 10.
74 Submission to the consultation paper: APLNG, p 3.
75 Submission to the consultation paper: Lochard Energy, p 2.
76 AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, 25 September 2025.
77 Submission to the consultation paper: AEMO, p 4.

- The DLNG arrangements should be an interim solution and not a long term component of any SoLR mechanism adopted.[78]
- The DLNG arrangement should be removed and if SoLR is introduced it should be consistent across the ECGS without requiring unique arrangements for DLNG.[79]

After considering stakeholder submissions and undertaking its own analysis, the Commission considers the SoLR mechanism and the interim DLNG arrangements can co-exist, without the need for the SoLR mechanism to replace the DLNG arrangements. This is because the SoLR mechanism is intended to address threats to gas reliability and supply adequacy throughout the ECGS, in contrast to the interim DLNG arrangements which are intended to specifically support system security in the DWGM.[80] Rather than streamlining or integrating the two mechanisms, allowing both SoLR and Dandenong LNG storage facility interim arrangements to co-exist provides AEMO with the broadest options available to address different issues that may arise in the gas sector. The Commission considers this would contribute to the NGO, as it would support enhanced reliability and security outcomes for consumers by having recourse to both mechanisms.

Once the interim DLNG arrangements expire in 2029, as provided under the current NGR, the SoLR mechanism would continue to operate across all the ECGS for reliability and supply adequacy purposes.

4.6 Setting the SoLR service price limit

The draft rule includes a financial price limit on how much AEMO should pay per GJ for each individual SoLR contract (taking into account both fixed and variable costs). The limit has been set at the DWGM market price cap (MPC) (referred to as VoLL in the NGR)[81]. The Commission considers this price limit is high enough to induce additional SoLR services beyond what the spot and contract market would provide, while also low enough to mitigate the potential impact of gaming or anchoring risks that could otherwise arise from a higher value.

The draft rule includes this price limit to provide sufficient regulatory certainty for AEMO and stakeholders. The draft rule also provides that the gas reliability committee (which would be established under the ERSAA draft rule) would review the price limit as part of its periodic facilitated market settings review.

The proponents proposed that in establishing a SoLR reserve, AEMO must have regard to the principle that the average amount payable by AEMO under reserve contracts for each GJ of reserve should not exceed the estimated average VGCR.[82] This was proposed to avoid AEMO spending more than what customers are willing to pay for reliability and supply adequacy. If AEMO were to spend more than customers are willing to pay for reliability and supply adequacy, overall costs for consumers, which include the cost of the SoLR plus the cost of curtailment, would not be minimised.

Stakeholders supported the need for a form of price limit on the SoLR mechanism.[83] They suggested that this price limit could take the form of a:

78 Submission to the consultation paper: Alinta Energy, p 5.

79 Submission to the consultation paper, AGL, p 9.

80 AEMC, *DWGM interim LNG storage measures*, rule determination, 15 December 2022; AEMC, *Extension of the DWGM Dandenong LNG interim arrangements*, rule determination, 30 October 2025.

81 Rule 200 of the NGR.

82 Rule change request, p 27.

83 Submissions to the consultation paper: AGL p 6; APLNG p 5; EnergyAustralia, p 4; GB Energy p 5; Origin Energy p 5; Shell Energy p 2.

- Willingness-to-pay (WTP) metric based on the marginal avoided cost of gas curtailment, which could include a VGCR.[84] The NEM RERT also has a price cap based on the VCR in electricity.[85]
- Market price cap (MPC) in the gas facilitated markets.[86]
- Electricity cap contract strike price in the electricity futures market.[87]

In the sections that follow, the Commission:

- assesses each of the options presented above and the current arrangements against the NGO
- provides its rationale for the draft rule that sets the SoLR price limit at the DWGM's market price cap.

4.6.1 Assessment of alternative options for the SoLR price limit

The Commission considered alternative options to the approach set out in the draft rule. We applied our assessment framework against these options. The discussion below sets out these alternatives and their potential advantages and disadvantages.

Willingness to pay

A WTP metric (or, more precisely, a metric that takes into account the full cost of curtailment, including ancillary costs such as those required to safely reconnect curtailed customers) provides a theoretically sound basis for limiting the cost of the SoLR mechanism. Setting a price limit at WTP would promote AEMO entering a SoLR contract only when doing so lowers overall costs to gas consumers.

However, this option may not best promote the achievement of the NGO, as the resulting high price limit could risk some stakeholders withdrawing supply from the spot and associated contract market (or pricing their contracts higher) in order to instead sell SoLR contracts, resulting in little or no additional supply with higher costs for consumers. In addition, publishing such a high SoLR price limit could allow prospective SoLR providers to anchor their bids to the competitive tender or near this level, with high costs flowing to consumers. These concerns are addressed in section 4.6.2.

Between the market price cap and willingness to pay

To address the concerns relating to market distortions from a price limit at WTP, the price limit could be set above the current market price cap but below the WTP. For example, the SoLR price limit could be set as a multiple of the DWGM MPC (such as 1.2).

The potential benefit of such a SoLR price limit is that it would be expected to have less distortionary impacts on the market compared to setting the SoLR price limit at the WTP. For example, the incentive to withhold potential supply noted above from setting the price limit at the WTP, would be reduced. However, there remains market distortionary risks with this approach, which may result in higher costs for consumers.

A SoLR price limit as a multiple of the MPC where it falls within the range between the MPC and WTP could result in a lower level of reliability than what consumers would be willing to pay. This would be an inefficient outcome. Setting the price limit within the MPC-WTP range may result in prospective SoLR services that cost more than the price limit but less than customers' WTP not being withheld from AEMO. This could occur because the relevant providers would not be willing

84 Submissions to the consultation paper: EnergyAustralia, p 4; APLNG, p 5; Shell Energy, p 2.
85 Clause 3.20.2(b) of the NER.
86 Submissions to the consultation paper: AGL, p 6; GB Energy, p 5; Origin Energy, p 5.
87 Submission to the consultation paper: Shell Energy, p 2.

to contract with AEMO, even at the SoLR price limit. While this would result in consumers avoiding higher SoLR costs, they could incur even higher costs from curtailment.

However, despite being below the WTP, the potential market distortions that may occur from a price limit set as a multiple of the MPC so it sits between the MPC and WTP could outweigh the benefits.

Based on historic spot gas prices, or future gas or electricity prices

We have also assessed the possibility of defining the SoLR price limit using historical gas spot prices or future gas (or electricity) spot prices. However, for each of these possibilities, the resulting SoLR price limit may be too low to induce additional supply above what would be delivered by the normal operation of the markets.

As supply and demand conditions tighten, prices in the facilitated markets will rise to the relevant cap, and during curtailment, the price will be at the relevant market or administered price cap. To induce additional supply (or a reduction in demand) at these times, prices need to be higher than those that market participants would have received or paid through the normal functioning of the market.

As a result, constraining SoLR costs to historic or expected future prices may make SoLR unattractive to exactly the prospective SoLR providers needed to supply (or reduce demand). That is, those entities that would not otherwise participate through the ordinary gas spot markets even at times of curtailment and the spot prices are at the relevant price cap, but would participate if the price were higher.

The draft rule enabling AEMO to pay up to the DWGM MPC (currently $800/GJ) for SoLR services may appear very high when current contract prices are being signed between $10/GJ-$13/GJ.[88] However, contract prices broadly reflect the market's expectations of average spot prices. The intent of SoLR is to induce additional supply at times when the supply-demand balance is extremely tight, with spot prices at or near the market or administered price cap in the DWGM or STTM. We also note that in the high price event in July 2022 in the DWGM, 92 of the 766 scheduled intervals in the five months from 1 May to 30 September 2022 were priced at VoLL (i.e., $800/GJ). This suggests the draft rule SoLR price limit is not unreasonable for the circumstances in which it may be used.

No price limit but rely only on the SoLR competitive tendering process

The Commission has also considered a 'no price limit' option where AEMO would only rely on any competitive tensions from the SoLR tendering process to place downward influence on the SoLR price payable by AEMO. On this, we observe:

- Reliance only on the competitive tendering process would not provide AEMO with sufficient guidance on the maximum amount it should pay for using SoLR. This could result in circumstances where AEMO pays more than consumers are willing to pay, which would not promote the NGO. For example, there is a risk if there are insufficient subscribers to a particular tender process that it does not provide sufficient downward pressure on the SoLR price, which could result in a SoLR tender being priced above what consumers are willing to pay.
- This approach would not be reflective of the rule change request or stakeholder feedback in support of a SoLR price limit.

88 ASX Victorian Gas Quarters Futures Prices (accessed 4 February 2026).

A cap on the total annual cost of SoLR

The current ECGS trading function has a trading fund of $35 million each year.[89] This is an example of a limit on AEMO's SoLR expenditure (and what gas consumers will pay) in the form of a cap on the total annual cost of SoLR.

As discussed above, AEMO should in theory procure SoLR up to the point where the cost of SoLR equals the avoided cost of curtailment. This maximises total benefits or minimises total costs to consumers who ultimately pay for the SoLR. Using only an overall limit on total annual SoLR costs does not achieve this, and would not best promote the NGO, because:

- AEMO may reach its overall annual limit, and yet there may still be efficient contracts available – where the contract costs to consumers are less than the estimated cost of curtailment that would arise without the contract. This outcome would not be in consumers' interest.
- Subject to the other constraints that exist on AEMO's behaviour under the SoLR mechanism, such as the mandatory principles and the competitive tendering process, AEMO could spend up to its fixed total cap despite the cost (on a per GJ basis) exceeding the estimated cost of curtailment, which is an inefficient outcome and not in the long term interests of consumers.
- It does not help AEMO make a decision on how much it should pay for a particular SoLR service arising from its competitive tendering process based on how much consumers are prepared to pay.

For these reasons, the draft rule has expressed the financial limit for AEMO's SoLR service contract costs on a $/GJ basis rather than an overall spending limit.

4.6.2 Reasons for setting the price limit at the DWGM market price cap

The Commission considers prudent design of a SoLR mechanism should include a financial price limit on how much AEMO would pay for each SoLR services contract. A price limit would also assist AEMO in assessing the effectiveness of the range of tools it has available, including SoLR.

Addressing risks of market distortion

As noted above, and in line with the proponents' rationale, it would be inefficient for AEMO to enter SoLR contracts where the cost of delivering a reliability outcome exceeds the benefits of avoided curtailment (i.e. above the WTP). This would suggest a price limit equal to the VGCR, as proposed.

However, setting the SoLR price limit at WTP risks market distortions and may be inconsistent with the assessment criteria of market efficiency. For example, a risk of economic withholding may arise where a high level of price constraint induces prospective suppliers to withdraw supply from the spot or contract markets (now and into the future) because SoLR contracts could be more profitable. The result would be apparent gas shortages created and then 'rectified' by the SoLR mechanism. Alternatively, the problem may manifest as higher 'in market' contract prices, as suppliers have an attractive alternative of supplying through SoLR. In both cases, the result could be low or no overall improvement to reliability, but higher costs to consumers either directly through the SoLR cost recovery process or through higher prices in the existing contract market, even if SoLR is not used. Therefore, these outcomes would not best promote the NGO.

The problem of the SoLR mechanism possibly inducing suppliers to withdraw from the gas facilitated markets (or only supplying at a higher price) is exacerbated by the fact that, unlike the electricity RERT, it is not feasible to limit SoLR participation to non-market participants. When contracting for the provision of scheduled reserves for the RERT, AEMO must ensure the capacity

89 Rule 709 of the NGR.

offered has not participated in the dispatch process for at least 12 months. Typically, electricity capacity offered into the RERT comprises behind-the-meter unscheduled generation or unscheduled load that can be activated, curtailed or restored on request from AEMO. Other than some large consumers with flexibility, there are few, if any, gas consumers with onsite gas storage or fuel switching capabilities who are not already industry participants in the ECGS. Also, curtailing individual gas consumers is problematic for safety reasons. Further, unlike the NEM which operates as one centralised market, the ECGS is not a single, centrally controlled market and this limits the transposing of RERT-like constructs to the ECGS.

While the Commission has identified withholding risk, it considers that one mitigating element is the relative uncertainty around the establishment and activation of the SoLR mechanism. Industry participants selling into the facilitated markets during tight conditions prior to SoLR establishment and activation may achieve higher risk-adjusted returns, as the outcome of the former may be more certain than the latter. In other words, a firm that considers withholding in the gas spot market in order to access the SoLR price may be choosing to sell early into the market with a lower return on a risk-adjusted basis than remaining in the market.

Economic withholding would likely damage reputation and future profitability and may create a risk of greater regulatory scrutiny for those participants who attempt to engage in it. The more enduring loss and damage would likely exceed any short-term gain from withholding, noting the possible role of the long-standing gas market monitoring arrangements and the recent gas market reforms announced by the Commonwealth Government.

While the risk of economic withholding cannot be avoided altogether, in considering the overall design of the SoLR mechanism, the price limit has been created to support AEMO's decision making processes and to limit SoLR's costs, which are ultimately paid by gas consumers.

Other elements of the draft rule that will minimise the risks of market distortion include: linking the establishment and activation of the SoLR to a tiered risk or threat signalling framework, specifying an order by which AEMO prioritises market responses or other tools before using the SoLR mechanism, and the competitive tendering process to select an appropriate SoLR response. Further, the impact of the Commonwealth gas market reforms (as set out in section 1.3) to address structural gas shortfalls may reduce the likelihood of the SoLR mechanism needing to be used.

The Commission has also considered whether to allocate the cost of SoLR to those that can be identified as causers of SoLR to reduce potential market distortions. As discussed in chapter 7, a simple cost recovery process is most appropriate for the draft rule as it is practically difficult to identify causers.

Given this cost recovery approach, we have considered the potential implications of the SoLR price limit on industry participants who will share that cost in locations where SoLR is used to address a threat. It raises the possibility the price limit should not be set too high to minimise impacts on industry participants bearing the costs of SoLR, even when they have been prudent in managing risks of gas shortfalls.

Inducing SoLR responses while managing market distortions and costs

Balancing the above considerations, the draft rule requires when AEMO enters into SoLR service contracts, it should not pay more than the price limit set at the DWGM MPC on a $ per GJ basis.

The Commission considers this appropriately balances:

- the need for revenues received by SoLR service providers to be sufficiently high to induce them to provide additional services beyond what suppliers would usually provide through the spot and accompanying contract markets (including demand response)
- concerns high prospective revenues from the SoLR mechanism could distort the market, as discussed above.

While typically we think of the facilitated spot markets as a mechanism where gas market participants trade with one another, it can also be considered to be a mechanism where AEMO 'purchases' gas at the locations of the facilitated markets, at a clearing price. AEMO then recovers these costs from those who withdraw gas. AEMO must pay more than it would via the spot market to induce additional supply (or a reduction in demand) at those locations and times when spot market prices are expected to be very high and there would otherwise be curtailment. At times of curtailment, prices in the DWGM and STTM are set at the market or administered price cap (MPC or APC) — as relevant).[90] This implies SoLR prices should be one or more of the price caps (MPC, VoLL or APC) in the facilitated markets[91] and this is far higher than we typically historically see in the spot and contract markets.[92] At times of curtailment, the spot price will be unusually high, and so inducing additional supply through SoLR at times of curtailment requires even higher prices than the capped spot market prices.

For example, when gas withdrawals from the DWGM for GPG were curtailed in 2022, the price cap (the APC, in this case) was in effect in the DWGM. To induce additional supply (or a reduction in demand) beyond that provided by the normal operation of the market, AEMO would have had to pay more than the APC under the SoLR had it been in operation at that time.

Determining which price cap the SoLR price limit should be higher than (STTM vs DWGM; MPC/VoLL vs APC), and by how much, is challenging and involves a judgement that trades off the risk of distorting the market with the risk of not inducing additional, efficient supply. A single price limit for the ECGS rather than location-specific ones is preferable. The Commission has determined the DWGM MPC is likely to represent the best balance, noting that while at one of the caps, it is above the APC in both the STTM and DWGM, and above the MPC in the STTM.

This setting may result in some risk AEMO is not able to procure SoLR supply that genuinely costs more than the limit but less than the cost of curtailment. However, on balance this risk is likely to be better for consumers than the risk of negative outcomes that arise from further distorting the market with a higher limit. Conversely, a SoLR price limit equal to the DWGM's market price cap, while probably still considerably lower than the marginal cost of curtailment, could still result in some market distortions. The Commission recognises that stakeholders may be able to identify other ways to avoid or minimise potential market distortions.

The Commission has also considered the matter of whether a published price limit for SoLR contracts may enable prospective SoLR suppliers to anchor their bids at (or just below) this limit. This may be particularly problematic if the SoLR market is not sufficiently competitive. However, compared to setting the SoLR price limit between the MPC and WTP, we have sought to minimise this risk by keeping the SoLR price limit in line with the DWGM MPC.

90 For the DWGM, see rules 223 and 224 of the NGR. For the STTM, see AEMO, *Technical Guide to the Short Term Trading Market* v.4.3, p 35, at: https://www.aemo.com.au/-/media/Files/Gas/STTM/Technical-Guide-to-the-STTM.pdf

91 This logic is complicated by SoLR contracts having both fixed and variable contracts, allowing counterparties to manage risks, along with the fact that the spot market itself is accompanied by a contract market, which is also a risk management mechanism. These affect the expected relative risk adjusted return of market participants when deciding whether to participate in the SoLR. Only an indicative comparison between the SoLR price limit and the price caps in the facilitated markets can be drawn.

92 Futures prices are between about $10/GJ and $14/GJ as of February 2026: https://www.asxenergy.com.au/futures_gas

In addition, AEMO could use the ECGS directions power to address a gas reliability threat. In such circumstances, relevant industry participants would be compensated only on a direct-cost basis. This alternative response to threats is expected to place downward pressure on bids from potential SoLR service providers and mitigate any market distortions, such as price anchoring risks, that may arise from using a published SoLR price limit. This would support a cost-effective SoLR response that benefits consumers and contributes to achieving the NGO.

Future-proofing the SoLR service price limit

The draft rule also provides that the gas reliability committee (as set out in the ERSAA draft rule) would review the SoLR service price limit as part of its periodic facilitated market settings review. This would allow reconsideration of whether the price limit appropriately balances risks of market distortion (including economic withholding risks) with the reliability impacts on gas consumers.[93]

93 Draft rule 140C.

5 Preconditions and trigger for the SoLR mechanism

The preconditions are the requirements that must be met before AEMO can consider entering into a SoLR service contract. They represent the starting point of AEMO's preparation to potentially intervene in the market to address a threat to ECGS reliability and supply adequacy industry participants have failed to fully address.

The trigger refers to AEMO's operational decision on whether to activate gas supply or demand response services under a SoLR contract it has established. Its design reflects broader choices about the design of a SoLR mechanism (including that it includes demand response). It represents the starting point of AEMO's active intervention to address a threat the market has failed to address.

Both the preconditions and the trigger for SoLR should incentivise and provide industry participants with the opportunity to respond before AEMO intervenes.

This chapter outlines the preconditions and trigger for SoLR:

- Section 5.1: Outlining the proponent's proposed preconditions and triggers
- Section 5.2 Detailing the feedback that stakeholders provided
- Section 5.3 Outlining the preconditions and trigger for SoLR in our draft rule

An outline of the draft rule discussed in this chapter is provided in the box below.

Box 3: Draft rule on preconditions and triggers

The draft rule specifies the precondition for AEMO to commence tendering for SoLR contracts, is when a risk to reliability or supply adequacy in the ECGS reaches tier 3 of the risk or threat signalling framework. Following this, AEMO would be allowed to commence the tendering steps for its SoLR mechanism.

AEMO would also indicate the latest practicable time for an industry response under the ERSAA draft rule.

The draft rule states that if there has been no adequate industry response and the threat remains after the latest practicable time has lapsed, AEMO can, but is not required to, activate SoLR.

5.1 Proposed preconditions and triggers

The proponents considered an actual or potential breach of the reliability standard would constitute an actual or potential threat to reliability and supply adequacy for the ECGS. In identifying and communicating a threat, AEMO would need to have:[94]

- identified the forecast breach of the reliability standard in the latest GSOO or PASA
- communicated the forecast breach of the reliability standard to the market by publishing a risk or threat notice (rule 695 of the NGR)
- AEMO would also be expected to convene a Gas Supply Adequacy and Reliability (GSAR) conference under rule 692 of the NGR to communicate the forecast breach to relevant entities and signal the need for an industry response.

94 Rule change request, pp 32-33.

The proponents also outlined matters AEMO would be required to consider in determining whether it would be necessary to trigger the SoLR mechanism, being:[95]

- the nature and size of the forecast breach
- the adequacy or feasibility of the response (or likely response) from market participants at the time the assessment is undertaken, noting that market participants should be given a reasonable period of time to take action to mitigate a forecast breach
- the RSA tool assessment criteria (see below)
- the NGO.

The following sets out an assessment of each, having regard to relevant stakeholder feedback and other information.

5.2 Stakeholders provided feedback on the preconditions and trigger

In response to the consultation paper, stakeholders provided feedback on the high-level design of the preconditions and trigger. Broadly, stakeholders:

- observed that the existing preconditions and trigger for AEMO's trading fund lack transparency and clarity (section 5.2.1)
- conditionally supported the use of the risk or threat signalling framework as a precondition for establishing and using the SoLR mechanism (section 5.2.2)
- had mixed views about whether operational conditions should be part of the trigger (section 5.2.3)
- had mixed views about AEMO maintaining some discretion in making decisions (section 5.2.4)
- supported the trigger for SoLR being mutually exclusive to the trigger for mechanisms in the facilitated markets (section 5.2.5).

5.2.1 Preconditions for the trading function lack transparency and clarity

The proponents consider the preconditions for the trading function lack sufficient guidance to AEMO or industry participants about the circumstances in which the function could be used. The rule change request identifies a need for 'clear and objective guidance to AEMO or market participants on when and how this function should be exercised'.[96]

Under the NGL, the precondition that needs to be satisfied before AEMO can decide to use the existing trading function is that it must be of the opinion that it is necessary to prevent, reduce or mitigate an actual or potential threat to the reliability or adequacy of supply in the east coast gas system that AEMO has identified and communicated to the market.[97] The draft rule does not impact these requirements.

The consultation paper noted AEMO must consider the supply of and demand for natural gas (and may consider any impact that covered gases could have)[98] and can use the trading fund to the extent AEMO considers it necessary or desirable.[99]

95 Rule change request, pp 32-33.
96 Rule change request, p 21.
97 Sections 91AD(2) and 91AF(2) of the NGL.
98 Rule 681A(2) of the NGR.
99 Rule 708 of the NGR.

Of the few stakeholders who responded to the consultation question about the existing preconditions, most agreed or conditionally agreed there are issues with the existing preconditions and the trigger.

- Two stakeholders considered there is an issue with the existing preconditions, because:
  - There is a lack of transparency and predictability for gas intervention.[100]
  - Rules 681A and 699 of the NGR are not adequately clear, given:[101]
    - information asymmetries limit AEMO's ability to accurately assess the potential distortionary impacts of its intervention and there is no linkage between the principle to give industry reasonable period of time to mitigate risk or threat and the communication of that risk or threat
    - the term 'reasonable period of time' is undefined, leaving it open to interpretation and potentially inconsistent application
    - beyond its general mandate 'to maintain and improve the reliability or adequacy of the supply of covered gas within the east coast gas system' AEMO is not required to explicitly consider the proportionality and reasonableness of its intervention.
- Two other stakeholders offered qualified support, noting:
  - The preconditions are satisfactory but could be improved with an explicit reliability standard and consideration of peak day ability to deliver and near term events that could create a shortfall.[102]
  - The existing trading function detailed in the rules does not provide clear and objective guidance to AEMO and market participants about how or when the power will be exercised, however it should also be linked to the PASA arrangements currently under consideration by the AEMC.[103]
- One stakeholder raised concerns the current triggers will be opaque and AEMO interventions will occur with minimal transparency that could lead to costly mismanagement.[104]

5.2.2 A SoLR precondition could utilise a risk or threat signalling framework

In addition to the requirements specified in the NGL, the rule change request proposed preconditions that would have to be satisfied before AEMO could consider whether to use a SoLR mechanism. The proponents considered an actual or potential breach of the reliability standard would constitute an actual or potential threat to reliability and supply adequacy for the ECGS. Communicating such a breach to the market would be part of the preconditions for a SoLR mechanism. Second, the proposed precondition arrangements require AEMO to be satisfied that using the SoLR mechanism would be necessary to address the threat to reliability and supply adequacy.[105]

The proponents' proposed design of a SoLR mechanism relies on the reliability standard, which is part of the ECGS reliability standard and associated settings rule change request. However, a reliability standard is not included in that draft rule.[106] This is because the Commission considers

100 Submission to the consultation paper: EnergyAustralia, p 3.
101 Submission to the consultation paper: APLNG, pp 4-5.
102 Submission to the consultation paper: GB Energy, p 6.
103 Submission to the consultation paper: Shell Energy, pp 1-3.
104 Submission to the consultation paper: Save our Surroundings Riverina, p 2.
105 See AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, pp 28-30.
106 AEMC, *ECGS Enhancing reliability and supply adequacy arrangements*, draft determination, 26 February 2026.

the proposed reliability standard for the ECGS is not well-suited to guiding short-term operational decisions.

Our consultation paper sought stakeholder feedback on whether a risk or threat signalling framework that uses tiers and a probabilistic metric could be a precondition for AEMO to procure a SoLR reserve. The tiers could feature:

- A temporal separation between supply decisions and demand fulfilment. Pipeline transit times, combined with system linepack, mean that changes in supply are often realised at the demand points hours or even days later, depending on distance and network configuration.
- Location-specific shortfalls: reliability risks or threats are often localised (e.g., Victoria) rather than system-wide.

Most stakeholders responded to this issue and were supportive of using a risk or threat signalling framework, because it would:

- align with other stage 2 RSA reform decisions (including ERSAA and PASA)[107]
- allow the preconditions and triggers for using the SoLR mechanism 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.[108]

In addition, some stakeholders provided further suggestions to the framework:

- The preconditions should be designed with the objective of providing the market with adequate opportunity to exhaust all market-driven solutions prior to the triggering of any AEMO intervention.[109]
- 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.[110]
- 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.[111]
- Similarity should be drawn to the lack of reserve (LOR) in the NEM, to avoid confusion and in recognition the market is best placed to respond to supply-demand imbalances that create reliability issues (both in the planning and operational timeframes). The framework could be called a "Lack of Supply" (LoS) mechanism, to allow ECGS wholesale market participants, the gas industry and consumers to properly understand the threat and the likelihood of the threat occurring. [112]
- AEMO should publish intervals and scenario assumptions. In addition, the process for market notices, reserve establishment, and intervention should be clear and timely, giving the market a real opportunity to respond before AEMO acts. [113]

Two stakeholders had some concerns, noting:

107 Submissions to the consultation paper: AEMO, p 3; APGA, p 4; Alinta, p 3; EnergyAustralia, p 3; Shell Energy, p 3.
108 Submissions to the consultation paper: AEMO, p 3; APGA, p 4; Alinta, p 3.
109 Submissions to the consultation paper: Alinta, p 3; Jemena, p 3.
110 Submissions to the consultation paper: AEMO, p 3; APGA, p 4; Alinta, p 3.
111 Submission to the consultation paper: Origin, p 3.
112 Submission to the consultation paper: EUAA, p 2.
113 Submission to the consultation paper: EnergyAustralia, p 3.

- Sufficient investment is needed from industry first, and after that is achieved, it would be appropriate to revisit the need for a signalling framework.[114]
- The preconditions outlined in the consultation paper create ambiguity regarding the intended purpose and operational sequence of the SoLR mechanism, as well as the relationship between the preconditions, triggering, and the establishment and use of SoLR reserves. Clear guidance on these points is essential to ensure stakeholders can accurately assess the design, understand when intervention may occur, and confirm that the mechanism aligns with its stated objectives of transparency, predictability, and efficient market operation.[115]
- Inside facilitated markets, there are existing system security measures (such as STTM contingency gas mechanism, DWGM threat to system security notices), that incentivise or prompt a market response. These should be used as preconditions for the SoLR mechanism, in line with the proponents' principle to have the least distortionary effect on operations.[116]

5.2.3 Operational factors may not be relevant for a SoLR trigger

The rule change request proposed AEMO should have regard to the nature and size of the forecast breach of the reliability standard and the adequacy or feasibility of the response (or likely response) from market participants at the time its assessment is undertaken. The proponents consider these matters should address whether it is necessary for AEMO to trigger the SoLR mechanism.[117]

Our consultation paper asked stakeholders whether the trigger for using a SoLR reserve should include operational conditions-similar to the STTM contingency gas mechanism.[118] Over half of stakeholders expressed limited support, noting:

- Although 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 fluctuate and are too variable to be an automatic trigger.[119]
- AEMO's existing decision-making and considerations see it act pre-emptively, informed by operational judgement and guided by provisions in the rules and procedures.[120]
- Operational factors are more relevant to AEMO's assessment of the supply and demand balance and its determination of whether breach of the reliability forecast is anticipated, and AEMO already has access to a wide range of operational and market data.[121]
- Prescribing such factors may unnecessarily constrain AEMO's discretion or flexibility to act as a last resort under what could be a wide variety of circumstances, and could inadvertently create expectations among market participants that AEMO intervention would be sufficient and/or certain when the triggers arise.[122]

One stakeholder suggested Iona's inventory level could be used as a short-term reliability indicator, given that the southern market needs more flexible winter peak supply for a longer duration.[123]

114 Submission to the consultation paper: GB Energy, p 7.
115 Submission to the consultation paper: AGL, p 4.
116 Submission to the consultation paper: APA, p 11.
117 Rule change request, p 32.
118 For more information, see AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, section 5.2.1.
119 Submission to the consultation paper: APGA, p 5.
120 Submission to the consultation paper: AEMO, p 3.
121 Submission to the consultation paper: APLNG, p 6.
122 Submission to the consultation paper: Jemena, p 3.
123 Submission to the consultation paper: Lochard, p 2.

5.2.4 AEMO's discretion to trigger SoLR remains important

The rule change request emphasised the need for more guidance for AEMO and market participants about when using a reserve under a SoLR mechanism could be triggered, given the lack of guardrails around the existing trading function in Part 27 of the NGR.[124]

The consultation paper noted AEMO's different role in the ECGS compared to the facilitated markets may be a factor in designing a trigger. There are two gas markets AEMO operates — the Victorian declared wholesale gas market (DWGM), and the short term trading market (STTM) that has hubs in Sydney, Brisbane and Adelaide.[125]

This means AEMO may face information asymmetry issues and operational limits in the ECGS that it does not in the DWGM or STTM. As a result, it could trigger a SoLR mechanism earlier or later than needed to address a threat to reliability or supply adequacy. Both situations could result in AEMO distorting the market and imposing unnecessary costs on gas users. This suggests it may be useful for AEMO to retain some discretion in the trigger for a SoLR mechanism to help avoid costly, unnecessary intervention.[126]

In response, stakeholders supported AEMO retaining some discretion to trigger a SoLR mechanism.[127] The reasons for this were:

- AEMO's discretion and discipline in using any SoLR reserve will preserve some incentives for market participants to seek out gas supply to minimise exposure to extreme market conditions.[128]
- AEMO should have some discretion to respond to the specifics of an unanticipated event that impacts supply (or dramatically increases demand), although for forecast events, AEMO should have limited discretion, as the process will be better defined as per the proposed trigger mechanisms.[129]
- That discretion should be given for AEMO to not intervene, as granting AEMO discretion to intervene would be misaligned with the goals of this rule change proposal.[130]

5.2.5 The SoLR trigger should not use the facilitated markets' mechanisms

Consistent with the general principle that market-specific actions should precede an ECGS action, the role and potential interactions of the triggers of market-specific mechanisms must be considered.

STTM

Rule 440 of the NGR sets out the types of contingency gas trigger events and steps to be taken by parties after becoming aware an event has occurred. As the contingency gas mechanism is unique to the STTM and designed for that specific market, the Commission's preliminary view was it should not be replaced or undermined by a trigger for SoLR that applies to the ECGS. The effect of applying this principle would be that the triggers for the ECGS and STTM will co-exist.[131]

124 Rule change request, p 31.

125 AEMO is also the operator of the gas supply hub (GSH) and the day ahead auction (DAA). These markets are not relevant to setting preconditions and triggers for the SoLR mechanism.

126 For more information, see AEMC, ECGS Supplier of last resort mechanism, consultation paper, p 34.

127 Submission to the consultation paper: APGA, p 5.

128 Submission to the consultation paper: Jemena, p 3.

129 Submission to the consultation paper: GB Energy, p 8.

130 Submission to the consultation paper: Shell Energy, p 3.

131 For more information, see AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, p 35.

Of the limited stakeholders who addressed this question, as noted above, all were supportive or conditionally supportive of keeping the trigger for contingency gas separate from the trigger for SoLR in the ECGS because it is important the SoLR mechanism complements existing market mechanisms across the ECGS, including contingency gas in the STTM.[132]

DWGM

AEMO has greater powers to manage and respond to threats to the DWGM. For example, AEMO can intervene in the DWGM to address system security threats and take any measures it believes are reasonable and necessary to overcome the threat.[133] AEMO also has a specific role regarding the Dandenong LNG facility as buyer and supplier of last resort and must act if there is any uncontracted LNG storage capacity (at the end of 1 March of any relevant year) in relation to an LNG storage facility for the upcoming winter months.[134]

The consultation paper noted this SoLR rule change process could provide an enduring solution for AEMO's last resort role for the Dandenong LNG facility. AEMO's role in relation to that facility and the arrangements is unique. This uniqueness and the gas outlook for Victoria may suggest the triggers for AEMO's intervention in relation to that facility could be appropriate and should be retained alongside an ECGS SoLR mechanism.[135]

As noted above, of the limited stakeholders who addressed this question, all were supportive of keeping the trigger for AEMO to intervene in the DWGM for system security reasons separate from the SoLR trigger. The reasons for this were:

- AEMO's powers are operational in nature and support AEMO's declared Victorian function that enable immediate action to mitigate threats to system security. It serves different purposes and may be operated across different timeframes.[136]
- 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.[137]
- It should be AEMO's aim (possibly a stated principle) to maintain the integrity of the market price setting mechanism until it is inevitable the market physically cannot meet demand i.e. supply will not meet demand in any one gas trading period.[138]

5.3 Preconditions and trigger for SoLR

The draft rule:

- uses the risk or threat signalling framework as a precondition to allow AEMO to tender for SoLR services
- preserves some discretion for AEMO in its ability to trigger SoLR
- does not include additional operational conditions that need to be satisfied for AEMO to trigger SoLR.

Each of these is discussed in turn below.

132 Submissions to the consultation paper: APA, p 11; AEMO p 4; APGA, pp 4-5; GB Energy, pp 6-7; Shell Energy, p 3.
133 Rule 343 of the NGR.
134 Rule 282(3) of the NGR.
135 AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, pp 35-36.
136 Submission to the consultation paper: AEMO, p 4.
137 Submission to the consultation paper: APGA, p 5.
138 Submission to the consultation paper: GB Energy, p 8.

5.3.1 Using a risk or threat signalling framework as a precondition for SoLR

Overview of the risk or threat signalling framework

The draft rule uses the risk or threat signalling framework (as provided in the ERSAA draft rule) for the preconditions to allow AEMO to tender for SoLR services.

The framework introduces three tiers for classifying identified risks or threats, reflecting the degree of market response required to mitigate or prevent them, with tier 3 representing the highest level of concern. Risk or threat notices could be escalated or de-escalated based on updated assessments of the likelihood and severity of forecast shortfalls.[139]

The ERSAA draft rule also includes a new term, supply shortfall, upon which the likelihood and severity assessment would be conducted. A supply shortfall refers to circumstances where, in AEMO's reasonable opinion, the supply of gas in all or part of the ECGS is inadequate to meet demand or cannot be relied on to meet demand.[140]

The risk or threat signalling framework would require AEMO to assess and classify all identified risks or threats in accordance with the published procedures developed in consultation with industry. This approach would enable industry participants to respond to forecast supply shortfalls in a timely and proportionate manner, reducing the need for out-of-market interventions.

This would not only reduce participants' uncertainty around AEMO's potential use of the SoLR mechanism, but also reduce the risk of untimely intervention.

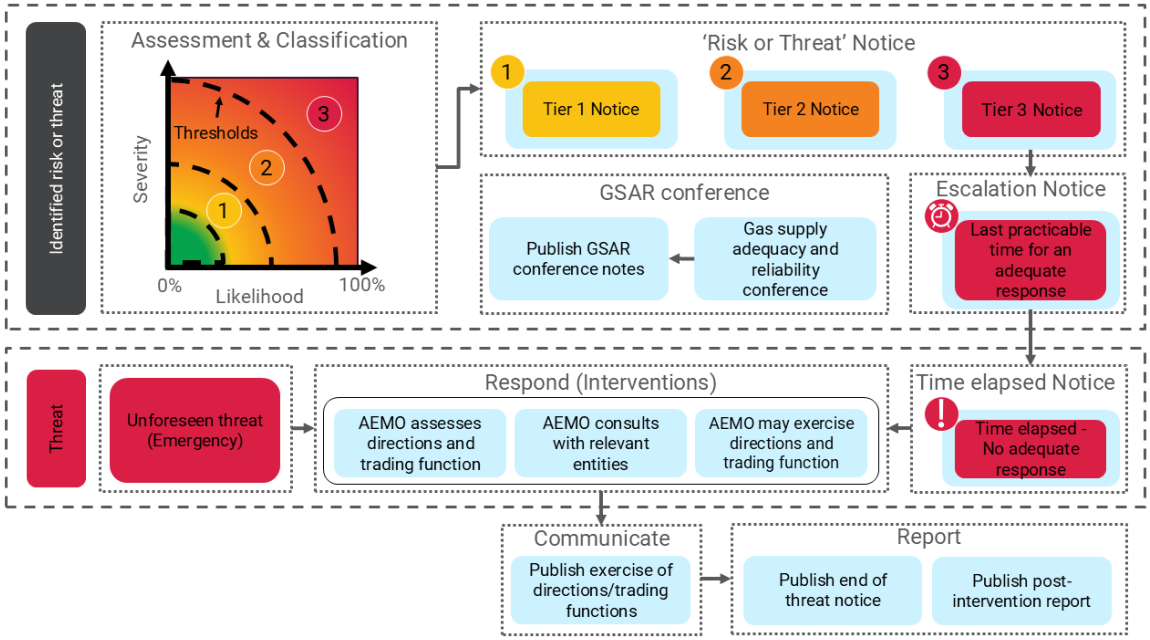
The tiers signal the need for a market-led response but, of themselves, do not trigger intervention by AEMO. Rather, they are intended to guide industry participants as to the level of concern and therefore provide an indication of how close AEMO is to intervening.

Further, AEMO would also be required to notify industry participants of the timeframe after which AEMO may need to consider intervening if the risk or threat is not addressed (referred to in the ERSAA draft rule), to improve the predictability of the potential exercise of AEMO's direction and trading functions.[141]

The following flowchart provides an illustrative outline of the framework.

139 ERSAA draft rule, Part 27 Division 3A and Division 4.
140 ERSAA draft rule 694B.
141 ERSAA draft rule 696A.

Figure 5.1: Draft risk or threat signalling framework



Source: AEMC

Note: This diagram illustrates that there are three tiers of risk or threat notices. Once tier 3 has been reached and the threat does not subside, AEMO can issue an escalation notice, which would include an outline of the last practicable time for an adequate response. Once the last practicable time has lapsed AEMO can consider triggering SoLR.

Preparatory steps for SoLR are allowed when tier 3 is reached

The SoLR draft rule would allow AEMO to commence tendering for SoLR services when a risk to reliability or supply adequacy in the ECGS reaches tier 3 of the risk or threat signalling framework. This is because tier 3 signals a threat to ECGS reliability and supply adequacy. Allowing AEMO to commence its tender process at this point balances transparency, flexibility and potential costs.

The tendering stage for the SoLR mechanism is clearly linked to the highest tier of the signalling framework. This linkage should provide greater predictability to AEMO and the market, on how risk and threats escalate and when AEMO can commence using SoLR.

The SoLR preconditions complement the ERSAA draft rule by using both likelihood and severity to accurately classify a risk or threat, providing a more effective indication of the need for a market response than a single metric alone.[142]

Under the NGL, AEMO can only exercise the trading function if it is 'of the opinion that the trade or purchase is necessary to prevent, reduce or mitigate an actual or potential threat identified by AEMO in the exercise of the function specified in subsection (1)(b)'.[143]

Rule 699 of the NGR sets out matters that AEMO must take into account when deciding whether to use the trading (or directions) function.

Our draft rule sets out the precondition that would need to be satisfied before AEMO can decide to use the supplier of last resort function. The Commission considers the draft rule would provide

142 Draft rule 694B(4) outlines the impacts AEMO must, or may, consider in its severity assessment.

143 Section 91AD(2) of the NGL. The Commission notes that the LT RSA reforms propose amendments to this provision.

sufficient guidance to AEMO or market participants about when and how this function should be exercised, which is consistent with promoting the NGO.

Using the tiered signalling framework as a precondition is expected to achieve a balance between transparency and flexibility regarding when and how AEMO could establish and use SoLR contracts. It would also provide greater predictability about AEMO's ability to commence the tendering process. Under this tiered framework, industry participants would be incentivised to address shortfalls before AEMO would need to intervene, as it would provide clarity on the likelihood and severity of the risk or threat to reliability or supply adequacy in the ECGS. This would align with the principle that a SoLR mechanism should be a last resort action, aligning with principles of good regulatory practice.

Triggering SoLR's use once the last practicable time for intervention has lapsed

The ERSAA draft rule provides that if, in AEMO's opinion, there has been no adequate response to a tier 3 identified threat by the latest practicable time, then AEMO would be required, as soon as practicable, to publish a notice to that effect.[144] That notice must include information available to AEMO at the time regarding the exercise, or the potential exercise, of its direction or trading function or other functions in relation to the tier 3 threat.[145]

AEMO would be able to set the latest practicable time it considers appropriate in the circumstances before being able to step in and address the threat using the SoLR mechanism. This timeframe may vary significantly depending on the circumstances, and only AEMO, at the moment a tier 3 is notified, will have the necessary information and expertise to determine this time. To support well-informed decision-making, the ERSAA draft rule requires AEMO to review the response time estimate and publish any revisions as soon as practicable.[146]

Once the latest practicable time has lapsed, AEMO may use SoLR services if appropriate to mitigate or address the threat (consistent with the NGL). This would allow AEMO adequate flexibility to account for operational circumstances in applying the risk or threat signalling framework as a trigger for SoLR.

Allowing AEMO to use SoLR services after the last practicable time for an industry response has lapsed balances predictability, transparency, and the principle that a SoLR mechanism is to be of last resort. This is because the trigger for SoLR will have a clear temporal link to provide guidance to AEMO and industry.

Requiring AEMO to communicate a specific timeframe to industry participants provides greater certainty and transparency. This complements the need for certainty about when AEMO could use the SoLR mechanism.

Nothing in this framework will prevent AEMO from exercising its direction powers before this time has elapsed in response to an emergency. Where AEMO considers there is insufficient time to assess and classify a risk or threat, it is not required to do so and may instead use its directions powers.[147]

Having the trigger for using SoLR services, as once the last practicable time for intervention has lapsed, would promote predictability and stability for the benefit of AEMO and market participants. This is because linking the preconditions to tier 3 and trigger of SoLR to the lapse of the last practicable time for an adequate response, would provide the market with opportunity to exhaust

144 ERSAA draft rule 696A.
145 These are AEMO functions under the NGL, NEL or NER that are not a direction or trading function. See ERSAA draft rules 680 and 696A.
146 ERSAA draft rule 696A(2).
147 Draft rule 694A(3).

all market-driven solutions prior to the triggering of any AEMO intervention.[148] This arrangement should also provide clarity on the sequence of actions for AEMO's ability to trigger the use of SoLR and would allow the intervention (if used) to be clear and timely.[149] As a result, the Commission considers our draft rule is consistent with principles of good regulatory practice.

5.3.2 AEMO retains discretion not to use SoLR

The draft rule provides AEMO with discretion not to use the SoLR mechanism even if the preconditions have been met. This discretion is provided at two stages:

- Once tier 3 of the risk or threat signalling framework has been reached, AEMO may (not 'must') commence the preparatory steps for SoLR (for example, commence a competitive tender process for a SoLR reserve contract).
- If AEMO publishes a notice outlining the last practicable time for intervention, and that time has subsequently lapsed, then AEMO may (not 'must') trigger the use of the SoLR mechanism (for example, exercising an option to use an established SoLR reserve contract).

There is a need to provide AEMO with flexibility, so it is not obliged to use the SoLR mechanism even if the preconditions and trigger have been met. This is because over-prescription could limit the effectiveness of a SoLR mechanism by closing options and potentially preventing AEMO from choosing not to intervene in the market (or intervening through an alternative mechanism). That is, more prescriptive rules could be beneficial (in providing clarity) but could create tension with flexibility that AEMO may need depending on the location, urgency and extent of the risk or threat to reliability or supply adequacy in the ECGS.

The draft rule's discretion enables AEMO to manage its options in a way that reinforces the 'last resort' intent of a SoLR mechanism. For example, depending on the nature of the threat, it could take AEMO time to procure a SoLR service contract that can address the particular threat at hand. Alternatively, some time may be required to enable a demand response to occur. This is consistent with submissions from stakeholders, who were mostly supportive of AEMO retaining some discretion not to use the SoLR mechanism even if the preconditions are met.[150] This would strike a balance with the need for good regulatory practice and market efficiency. This is because there would be transparency on when the SoLR would likely be used, whilst still providing sufficient flexibility with the high threshold to activate the SoLR mechanism, so that the market can still intervene first.

5.3.3 The SoLR trigger does not include additional operational conditions

The draft rule does not include additional operational conditions that must be satisfied before AEMO can trigger the use of the SoLR mechanism. This is because operational conditions would already have been considered as an input into AEMO's assessment under the risk or threat signalling framework.

Under the ERSAA draft rule 694A, AEMO would be required to undertake two processes following the identification of a risk or threat – an assessment process and a classification process:

- The assessment process requires AEMO to estimate the likelihood and severity of any identified risk or threat.

148 Submissions to the consultation paper: Alinta, p 3; Jemena, p 3.
149 Submission to the consultation paper: EnergyAustralia, p 3.
150 Submissions to the consultation paper: Jemena, p 3; GB Energy, p 8; Shell Energy, p 3.

- The classification process then requires AEMO to use the outputs of the assessment to classify the identified risk or threat into one of 3 tier levels, reflecting the degree to which an industry response is required.

The ERSAA draft rule 694B provides AEMO discretion to determine the appropriate modelling approaches and processes used to generate those outputs. This should include drawing on the GSOO, VGPR, Short Term and Medium Term PASA and any relevant market reporting and information from the ACCC and AER. As a result, there appears to be no need to specify any obligation on market participants, such as pipeline service providers or facility operators, to notify AEMO of risk or threat events in the SoLR draft rule.

In addition, operational conditions would not be able to account for short term fluctuations in reliability or supply adequacy for the ECGS. To require AEMO to use SoLR pending a specific operational condition risks unnecessarily constraining AEMO's discretion under the SoLR mechanism. In practice, this would mean that the trigger for SoLR would be misaligned with the reliability and supply adequacy issues. This sentiment was reflected in feedback from stakeholders.[151] The Commission is satisfied that inclusion of operational conditions as a trigger for SoLR would not address the primary objective of this rule change request nor promote the achievement of the NGO.

151 Submissions to the consultation paper: APGA, p 5; AEMO, p 3; Jemena, p 3.

6 Operating SoLR

This chapter details how the SoLR mechanism would operate once a tier 3 notice has been issued under the ERSAA risk and threat signalling framework. This chapter applies to both supply and demand-side responses under SoLR, and includes the following:

- Section 6.1 Outlining the operational requirements proposed in the rule change request
- Section 6.2 Outlining the SoLR assessment criteria AEMO must use to evaluate the most suitable tool to alleviate the identified threat.
- Section 6.3 Discussing the other functions AEMO must consider prior to establishing or activating a SoLR contract.
- Section 6.4 Describing the contracting approach AEMO would use to establish SoLR contracts.
- Section 6.5 Detailing the steps AEMO must take before activating a SoLR contract
- Section 6.6 Outlining the requirements on AEMO to relinquish SoLR contracts.

An outline of the draft rule discussed in this chapter is provided in the box below.

Box 4: Draft rule on operating SoLR

The draft rule:

- requires AEMO to use assessment criteria when determining whether and how to use the SoLR in response to a tier 3 threat
- requires AEMO to consider other tools it has prior to running a competitive tender for a SoLR contract and prior to activating a contract, which may include directions or other measures that could alleviate the threat
- permits AEMO to procure gas services only through a competitive tender process
- sets obligations on AEMO to relinquish gas services under SoLR contracts to interested participants, except in certain circumstances.

6.1 SoLR operational requirements proposed in the rule change request

The rule change request proposed a range of operational requirements for the SoLR mechanism, including:

- assessment criteria to support AEMO in determining how best to respond to a forecast breach of the proposed ECGS reliability standard.[152]
- a direct purchase or intermediary approach for procuring gas and a panel tendering approach for administered demand response.[153]
- a strict approach to relinquishment modelled on the DWGM Dandenong LNG interim arrangements.[154]

6.2 SoLR assessment criteria would support AEMO's decisions

When a tier 3 notice is issued, the draft rule empowers AEMO to tender for and establish one or more SoLR contracts for services to address the threat. It is appropriate that AEMO has guidance

152 Rule change request, p 15.
153 Rule change request, pp 40 and 44.
154 Rule change request, p 41.

on assessing the tenders it receives when in a position to contract for the most suitable gas service(s).

In addition, on occasions where AEMO decides it must intervene in the ECGS and is considering either activating a SoLR contract or using another function, such as directions, it is appropriate that it makes its decision based on clear criteria. In each situation, AEMO's decision should reflect an evaluation against a set of assessment criteria.

In the rule change request, the proponents proposed 'RSA tool assessment criteria', which would require AEMO to:[155]

- Consider the costs (both direct and indirect) and effectiveness of all the tools that it could use under the NGL/NGR and NEL/NER to address the forecast breach of the proposed reliability standard, including:
  - the SoLR mechanism
  - tools available to it in the NEM (eg. the RERT and NEM directions and instructions powers).
- Use its reasonable endeavours to choose the tool, or combination of tools, that is effective in addressing the forecast breach, while minimising the direct and indirect costs of using the tool or tools. Without limitation, examples of the types of direct and indirect costs to be considered include direct costs:
  - The costs of using the other functions (e.g. payments that would need to be made under reserve contracts in the case of the RERT or SoLR mechanism, or compensation payments in the case of the directions tools).[156]

The Commission considered the proposed assessment criteria and determined the SoLR principles in the NGR are generally sufficient to guide AEMO's use of the SoLR.[157] However, it would be valuable to support these principles with appropriate assessment criteria in the ECGS Procedures to clarify how AEMO would evaluate the response(s) to a tier 3 threat. As a result, the draft rule requires AEMO to make procedures that provide for matters in connection with the establishment and activation of SoLR service contracts, including assessment criteria.[158]

The Commission considers that in evaluating which tool to use to respond to a threat, including SoLR contracts, AEMO should have regard to the following:

- The proximity of the gas or service compared to the threat
- The SoLR principles, which are that actions by AEMO should:
  - be those AEMO reasonably expects to have the least distortionary effect on the operation of the east coast gas system
  - aim to maximise the effectiveness of SoLR to address the threat to reliability or supply adequacy within the ECGS at least cost to gas consumers
  - be within the cost constraint
  - to the extent practicable, be consistent with the targets statement, and
  - not compromise safety
- The response dependencies — how dependent the SoLR service is on other services
- The impact of the SoLR service on gas and electricity consumers

155 Rule change request, p 15.
156 Rule change request, p 23.
157 SoLR principles are set out in draft rule 699A(2).
158 Draft rule 699D(2).

- Any other relevant matters.

The consultation paper outlined an initial view of the operating steps, including that AEMO would assess which gas or service was most appropriate to contract for prior to activating the SoLR. This received support from some stakeholders, for example, GB Energy.[159] GB Energy further notes that 'in the case of market failure, the lowest cost solution should be pursued.'[160] In addition, Shell Energy notes that 'transparency around market interventions is critical to understanding potential future interventions and their ramifications for market participants'.[161] This indicates support for a transparent process for AEMO's use of SoLR and consideration of costs when selecting a suitable contract.

6.2.1 Clear criteria would support AEMO decision-making

The Commission has considered stakeholder views and the proposed arrangements, and concluded it will be beneficial to AEMO and industry participants for the key decisions on tender evaluation and electing to use a SoLR contract to be guided by clear, relevant criteria. The draft rule requires AEMO to establish one set of criteria for both decision points.

The assessment criteria would allow AEMO to evaluate available options to address a threat within a clear framework. This is in line with the principles of good regulatory practice. Further, clear, relevant criteria will support a transparent and predictable approach from AEMO to assessment, ensuring it considers the relevant factors in making its decision. The draft rule on the criteria differs from the proposal in the rule change request because the draft rule would allow AEMO to focus more on the suitability of the specific gas services offered. This would support AEMO in considering whether a gas service offered in the tender is fit-for-purpose for the identified threat. For these reasons, the draft rule is more preferable than the proposal and better contributes to the NGO.

As indicated, the draft rule would require AEMO to make procedures that include assessment criteria. The Commission has considered what kind of criteria may be appropriate for AEMO to assess tenders against.

The table below sets out Commission's thinking on the kind of assessment criteria which may be appropriate for AEMO's procedures.

Table 6.1: Commission's view on appropriate SoLR assessment criteria

Criterion	Rationale
A. The proximity of the gas service compared to the threat	It is important to consider the location of the gas service compared to the threat. This may include its proximity to the threat and how readily that gas or service can be made available.
B. The SoLR principles	The SoLR principles have been designed for AEMO to have regard to in operating SoLR. For this reason, the principles are relevant when AEMO considers tenders and decides whether to use a SoLR contract.
C. The response dependencies	Where a SoLR service requires an alignment of multiple

159 Submission to the consultation paper: GB Energy, p 9.
160 Submission to the consultation paper: GB Energy, p 10.
161 Submission to the consultation paper: Shell Energy, p 5.

Criterion	Rationale
	actions for it to be effective, this is a response dependency. For example, the ability to transport the gas, or the ability to fuel switch. This is an important consideration for AEMO where other factors, like providing advanced notice, may outweigh the benefits of the SoLR service.
D. The impact of the SoLR service on gas and electricity consumers	The benefits of a SoLR service should outweigh the costs to consumers. In addition, providing gas reliability should not come at the cost of electricity reliability without due consideration.
E. Any other relevant matters	This acknowledges that the above assessment criteria are not exhaustive. In addition to having regard to the NGO, the particular circumstances of the threat before AEMO may mean that other information or factors which are not specified in the draft rule should be considered when making a decision.

Source: AEMC.

6.3 AEMO must consider other options first

The SoLR mechanism is intended as one of many tools available to manage reliability risks and threats in the ECGS. It should remain a last resort and not supplant existing market mechanisms, particularly if doing so may adversely affect reliability outcomes or be detrimental to gas users.

Consistent with the intent of the rule change request, the draft rule specifies that AEMO is to consider other functions, including market mechanisms and tools (for example, DWGM and STTM tools), before commencing the tender process and again before using a SoLR contract.[162] This is to enable AEMO to respond with the most appropriate tool to alleviate the threat to reliability and supply adequacy. It includes AEMO considering the tools available to it in the NEM, given the links between the NEM and the ECGS due to gas usage by gas-powered generators.[163]

Stakeholders shared the view the market should be given sufficient time to respond to risks identified in the ECGS, and noted the various market mechanisms in place supporting AEMO and industry participants in responding to reliability risks.

Stakeholders agreed guidance is required on the order of priority of market intervention tools, with GB Energy noting 'the market should understand the potential options to address a variety of market issues.'[164] APA similarly noted 'it is crucial that it is aligned with existing planning instruments, such as AEMO's GSOO, and other Stage 2 Reliability and Supply Adequacy mechanisms'.[165]

Various regulatory tools are available to manage reliability and supply adequacy risks and threats in the ECGS. As indicated in figure 6.1 below, RSA tools include: information and coordination tools (for example, Bulletin Board and gas supply adequacy and reliability conferences) and interventions (for example, ECGS direction powers, STTM contingency gas mechanism, and the DWGM intervention powers). Additionally, there are jurisdictional emergency powers. As a result, it

162 Draft rules 696B(3) and 699H.

163 AEMO, *2025 Gas statement of opportunities*, pp 5-7. See definition of 'AEMO's other functions' in draft rule 680.

164 Submission to the consultation paper: GB Energy, p 8.

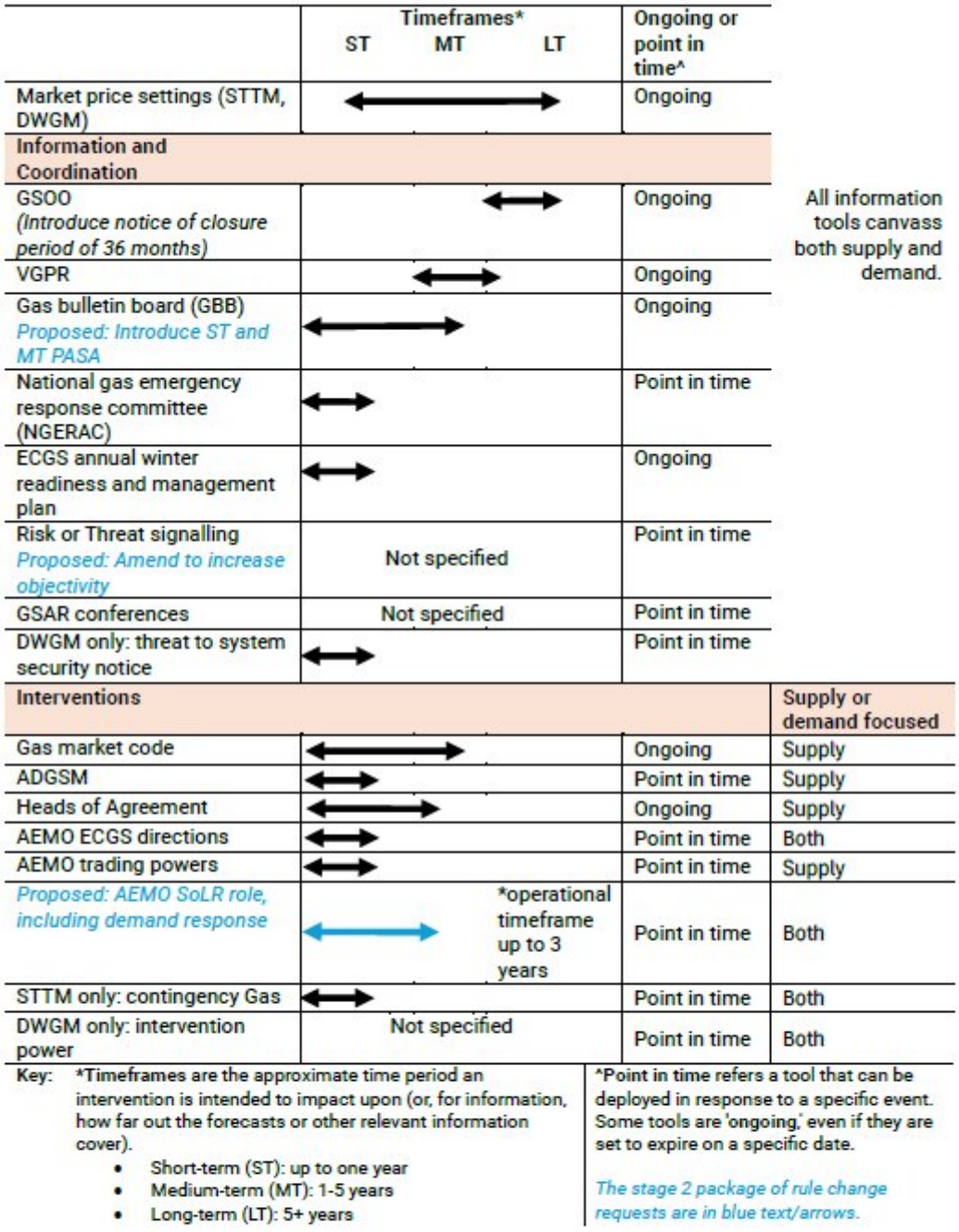
165 Submission to the consultation paper: APA, p 6.

is essential that AEMO consider all available tools prior to tendering for and activating a SoLR contract.

Figure 6.1 below, updated from the AEMC's March 2025 background paper, provides the context for and indicates the timeframes relevant to each tool.

The Commission considers the draft rule requirement for AEMO to consider other functions before tendering for and activating SoLR contracts contributes to the achievement of the NGO, because it supports the provision of reliable and secure energy at an efficient cost to consumers. The draft rule reinforces good regulatory practice by supporting decision-making with clear guidance that provides predictable, understandable outcomes. It also reinforces the policy intent of SoLR being a last resort mechanism, and this provides clarity to AEMO and industry participants when reliability and supply adequacy issues arise in the ECGS. While providing guidance, the draft rule is also flexible to changing policy and market dynamics, as well as the broader direction of reform, including the LT RSA measures.

Figure 6.1: Tools available to manage reliability risks in the ECGS



About this diagram:
This information is intended to assist in understanding the broader context in which the package of proposed rule changes would operate. It is not intended to capture every regulation or intervention in the gas market, and specifically excludes participant reporting obligations, jurisdictional approval processes or economic regulations of pipelines, and jurisdictional activities on electrification and alternative gases.

Source: AEMC.

6.4 SoLR contracting methods

Under the draft rule, AEMO would use a tender process to procure SoLR service contracts. Where AEMO decides to use SoLR service contracts to address a threat to reliability, the procurement of gas services (including administered demand response) should be transparent and deliver outcomes that meet the needs of AEMO, market participants and industry in a cost-efficient way. For these reasons, the Commission has determined AEMO should use a competitive tender process to identify potential SoLR contracts it could establish and enter into.

6.4.1 The rule change request did not limit AEMO to tendering

The rule change request did not propose AEMO must use, and be limited to, a competitive tender process to determine what demand or supply actions could respond to identified threats to reliability and supply adequacy. Instead, the request proposed:[166]

- tendering to establish a panel for administered demand response (similar to the RERT framework)
- using an intermediary for AEMO to buy gas from the gas supply hub (GSH) and day-ahead auction (DAA)
- requiring AEMO to use a competitive tender process, where there is sufficient time, but also allowing AEMO to buy gas directly from the facilitated markets
- requiring AEMO to prepare ECGS Guidelines that set out the process it will use when entering into reserve contracts, including the circumstances in which a full competitive tender process will be conducted, or a panel of providers (SoLR Panel) will be established.

6.4.2 AEMO will design the competitive tender process

The draft rule requires AEMO to design the competitive tender process in accordance with the SoLR principles, as discussed in section 4.2.

In addition, in developing and conducting the tender process AEMO must consider the following objectives:

- promoting competition for the opportunity to enter into a SoLR contract, including regarding the services and their price
- enabling AEMO to make an informed, transparent decision about which services would be successful to prevent, reduce or mitigate the threat.[167]

The process design details are to be included in the ECGS Procedures and must:

1. allow AEMO to accept one tender, a combination of tenders, or no tender
2. acknowledge AEMO may cancel the tender process at any time
3. include processes and procedures to enable AEMO to conduct due diligence on tenders
4. specify the publication of tender documents that will enable a competitive tender process to be carried out
5. provide AEMO with the ability to negotiate with any bidder.[168]

In addition, when conducting a competitive tender process, AEMO will be required to take into account certain eligibility criteria. These criteria will be designed by AEMO and included in the ECGS Procedures. Under the draft rule, the criteria must include:

166 Rule change request, pp 23, 44.
167 Draft rule 699E.
168 Draft rule 699G.

- criteria for bidders and, where relevant, for their related entities, including with respect to financial and technical capabilities and legal status
- criteria to confirm that tenders could, if accepted, provide a solution within a particular time to address an identified reliability threat.[169]

6.4.3 Stakeholders had concerns about AEMO buying from the facilitated markets

Some stakeholders raised concerns about AEMO buying gas directly and issuing directions for its transport.[170]

APA expressed concern about directions being used to move SoLR gas reserves, which may conflict with existing gas transport agreements (GTAs). In APA's view, 'operators of a transport facility should be responsible for transporting gas'.[171]

In its consultation paper, the Commission discussed the potential use of an intermediary to buy and sell gas in the facilitated markets. Feedback from stakeholders supported having third parties operate on AEMO's behalf within the existing ECGS framework. Shell Energy stated 'we support the idea that AEMO could tender for one or more intermediaries to acquire and transport the gas required to fulfil the SoLR requirements. We agree that this could alleviate difficulties that AEMO may face in managing the transport and title transfer of gas.'[172]

The Commission has considered these views and the complexities of AEMO taking title of gas and securing gas services itself. Stakeholders were interested in AEMO using intermediaries when engaging with the facilitated markets. This concept aligns with using a tender process across the ECGS.

On balance, and having regard to other features of the draft rule SoLR mechanism, the Commission considers that a competitive tender process should be used by AEMO to establish contracts with another party to procure demand and/or supply based gas services on its behalf. The draft rule limits AEMO to only using a competitive tender process for SoLR contracts; it will not buy or sell gas directly in the facilitated markets. In signalling that AEMO intends to conduct the tender process, it must provide details of the identified threat such as the expected magnitude, timing and duration of the threat and the types of services it may seek under the contract to address the threat.[173]

Industry participants would then provide tenders to AEMO to provide supply and/or demand response services. This approach would reduce AEMO's direct market intervention and avoid the need for AEMO to set up transport contracts.

Where a competitive tender fails to produce a suitable offer AEMO would be able to use other tools (such as directions) to address the identified reliability threat.

The Commission is satisfied this aspect of the draft rule would contribute to achieving the NGO. This is because a competitive tender process promotes competition and better allocates risk between AEMO and industry participants. This encourages efficient investment in, and efficient operation and use of, covered gas services. A tender process would also provide transparency and accountability, which is important for the SoLR mechanism as it is a form of market intervention.

169 Draft rule 699F.
170 Submissions to the consultation paper: GB Energy, pp 10-11; APLNG, p 8; Shell Energy, p 4.
171 Submission to the consultation paper: APA, p 8.
172 Submission to the consultation paper: Shell Energy, p 4.
173 Draft rule 696B(1).

The SoLR competitive tender process has been designed in consultation with AEMO and in response to stakeholder feedback, to reduce complexity by avoiding the need for AEMO to directly participate in the ECGS markets. The Commission considers this to be better regulatory practice. It also aligns with the proposed use of competitive tender processes in the LT RSA consultation package.

6.4.4 The SoLR competitive tendering process would contribute to the NGO

The Commission's draft determination is that developing eligibility criteria and publishing information relating to the tender process will promote simplicity and transparency for market participants, and is in line with the principles of good regulatory practice. This, in turn, supports market participants in bidding into the tendering process and therefore promotes efficient investment in, and efficient operation and use of, covered gas services. The publication of tender process information also encourages market participants to make well-informed bids to AEMO by providing them with the information and knowledge they need.

Requiring AEMO to develop the eligibility criteria in line with key guidance areas provides a principles-based approach enabling AEMO flexibility in its decision-making, but enough prescription to provide clear guardrails for the SoLR. Further, this approach ensures a market-wide solution that avoids uncertainty and supports competition through the tendering process.

6.5 Steps to establish and use a SoLR contract

Once a tier 3 threat notice has been issued, the draft rule sets out steps AEMO must take before it can establish a SoLR contract or use a SoLR contract it has in place. This is to support AEMO in carrying out a clear process to ultimately select the most appropriate contract for the threat. These steps become relevant once a tier 3 threat notice has been issued.

Few stakeholders commented on the suitability of the operational steps outlined in the consultation paper. Of the five that did, three agreed the consultation paper's operational steps aligned with their expectations on how SoLR would operate.[174]

Some stakeholders found it difficult to comment on the operational steps without further details on the relationship between the preconditions, triggering, and the establishment and use of SoLR reserves.[175] The Commission acknowledges these concerns and has detailed the operational steps for SoLR below to provide more clarity to stakeholders on how the SoLR operates.

While not all stakeholders responded to the operational sequence outlined in the consultation paper, most indicated a strong preference for the market to respond to threats before any intervention. The Commission is aligned with this view and has built checkpoints into the SoLR operations process so AEMO establishes and uses its SoLR contracts only when the industry participants have been unable to fully address a threat, reinforcing the 'last resort' nature of the mechanism as articulated in the rule change request.

As a result, the draft rule sets out the steps for AEMO to establish SoLR contracts and to make use of a SoLR contract it has established through the competitive tender process. Once a threat has been communicated, these steps are:

1. AEMO must consider other functions using the SoLR assessment framework to evaluate whether an alternative to SoLR would best address the threat.[176]

174 Submissions to the consultation paper: APLNG, p 9; APA, p 12; GB Energy, p 9;
175 Submission to the consultation paper: AGL, pp 3-4
176 Draft rules 696B(3) and 699H.

2. If AEMO determines that no other functions are suitable at this stage, then AEMO may determine to do one or more of the following:
   a. Assess existing SoLR contracts for their suitability to resolve the threat
   b. Where there are no suitable existing contracts, start a competitive tender process.
3. Publish the tender eligibility criteria and information for the market on the steps that AEMO is taking through the tender process.[177]
4. Allow a suitable period to receive bids through the competitive tender process.
5. Evaluate the bids received through the tender process against the SoLR assessment criteria and, assuming suitable bids are available, select one or more suitable offers to establish a contract.
6. Establish one or more SoLR contracts.[178]
7. Assess again the most suitable measure to activate. This would occur just prior to AEMO activating the SoLR, or as late as reasonably possible.
8. Where there is a SoLR contract for services AEMO considers will address the threat, AEMO may activate that contract and enable the SoLR service provider to respond to the threat as agreed.[179] In this regard, 'activation' of the contract is using the contracted SoLR service and may include requiring a SoLR service provider to reduce demand, submit an injection bid into a facilitated market to provide gas or other measures to make gas available to consumers.[180]

At any point during these operational steps:

- information provided to AEMO may indicate that the threat has abated
- the market may respond appropriately to alleviate the threat, and/or
- AEMO may determine to use another function to address the threat.

If any of these new circumstances arise, then AEMO can proceed with other functions or will notify the market the threat has ceased.[181] Further, where no gas becomes available through the competitive tender process to address the supply-demand imbalance, either because no demand response bids have been received and/or no additional supply could be found, we expect AEMO would proceed with another tool to alleviate the threat.

6.5.1 Aligning the competitive tender process with the operational steps of SoLR

Under the tendering approach, AEMO would issue a tender for industry participants to respond to an identified threat, specifying the relevant amount of gas, time, and location.

In Step 5 listed above, AEMO would consider the bids, evaluate them against the assessment criteria and select one or more to contract with, as appropriate. As part of the contracting, AEMO and the SoLR provider would need to agree on the cost, timing, volume of gas, notice period for preparation, operational logistics, and the baselining and measurement approach for an administered demand response.

At Step 7, AEMO would assess whether the contracted SoLR provider remains the most efficient contract to activate to respond to the reliability threat. Following activation of the contract, the provider would be required to provide details to AEMO demonstrating how it met the contract's

177 Draft rule 699I.

178 AEMO may inform the market that it has established a SoLR contract and reiterate the latest practicable time for a market response in ERSAA draft rule 696A.

179 Draft rule 699J.

180 Draft rule 680, definition of 'activation'.

181 Rule 696, as modified by the draft ERSAA rule and this draft rule.

obligations. For administered demand response providers, this may include how they reduced their demand relative to their baseline. The specific information provision obligations would be determined by AEMO as part of establishing the contract.

6.5.2 The steps to use a SoLR contract would contribute to the NGO

The operational sequence outlined above has been designed to support AEMO in delivering the reliable, secure and safe provision of energy at efficient cost to consumers over the long term. By embedding multiple assessment checkpoints into the process, these steps promote efficient operation of and resource use in the ECGS, contributing to achieving the NGO. In addition, by AEMO using a tender process while remaining open to other tools to address the threat, competition between bidders in the SoLR tender is promoted. The operational sequence also provides transparency to the market about how AEMO makes its decision to establish and activate SoLR contracts. The Commission considers this would promote the NGO.

By aligning the SoLR tender process with the ERSAA threat signalling framework, the draft rule provides incentives for market participants to respond before the latest practicable time, or risk paying for the SoLR mechanism through the cost recovery process (noting to the extent these costs are shared, the resulting impact of this risk may not be significant). Further, the operational steps outlined above support the market in understanding how AEMO will use the SoLR mechanism, and therefore contribute to its transparency and predictability.

6.6 Relinquishment requirements will reduce crowding out

The draft rule includes a relinquishment mechanism enabling industry participants, subject to certain parameters, to acquire services AEMO has contracted using the SoLR mechanism. The purpose of this aspect of the SoLR mechanism is to reduce the likelihood of AEMO crowding out industry participants. The draft rule is similar to the approach proposed in the rule change request.

Stakeholders were generally concerned that by using SoLR, AEMO would crowd out the market. As a result, they supported requiring AEMO to relinquish its capacity and stock to interested industry participants. Shell Energy noted that 'if storage is sought by market participants, then there is no need for AEMO to also store gas and thus crowd out market participants.'[182]

Stakeholders generally supported a relinquishment mechanism. However, there were mixed views on the circumstances under which AEMO should be able to decline a request to relinquish gas or gas services. For example, APGA supported a mandatory relinquishment approach and GB Energy supported 'a stricter relinquishment process whereby capacity is given up by AEMO when market participants are prepared to pay and utilise the capacity held by AEMO.'[183]

The rule change request proposed an approach that would enable AEMO to deny a relinquishment request under certain circumstances. This was to accommodate potential issues arising from mandatory relinquishment requirements, including potential gaming and the risk that relinquishment without any reservations could lead to cost impacts.[184]

The consultation paper discussed an alternative relinquishment mechanism that balances AEMO's discretion with a strict requirement to relinquish. Stakeholder feedback was positive, and several supported this approach.[185] Shell Energy noted 'the potential costs to consumers if AEMO has

182 Submission to the consultation paper: Shell Energy, p 4.

183 Submission to the consultation paper: GB Energy, p 11.

184 For example, this could occur where AEMO contracts for gas to address a threat, has to relinquish it to a market participant, and then has to buy it back at a higher cost to address the same threat.

185 Submissions to the consultation paper: GB Energy, p 11; Shell Energy, p 4; APLNG, p 11; AEMO, pp 3-4.

paid more for the stored gas than market participants are prepared to pay,' and, on balance, supported the alternative relinquishment mechanism.[186]

Having regard to this feedback and other aspects of the draft SoLR mechanism (particularly that AEMO utilises contracts for SoLR services arising from the competitive tendering process), the Commission's draft determination is to include a relinquishment mechanism that is somewhat different from the one proposed in the rule change request.

The draft rule includes a relinquishment requirement under which AEMO would transfer its SoLR service contract interests to industry participants. If an industry participant requests AEMO to relinquish to that market participant any gas services, rights or entitlements available to AEMO under a SOLR service contract, AEMO must do so in accordance with the ECGS Procedures. However, AEMO is not required to do so to the extent it considers the requested relinquishment may prejudice or limit AEMO's ability to address a tier 3 threat or be inconsistent with the SoLR principles. Additionally, if this is not permitted under the SOLR services contract, such as through assignment, transfer or novation terms, then AEMO does not have to relinquish.[187]

The draft rule's relinquishment mechanism will benefit a range of industry participants by reducing the risk AEMO crowds them out when it establishes SoLR service contracts. It would promote the NGO as it promotes the efficient use of resources. It also supports competition and the effective operation of the market by supporting market participants to have the first opportunity to address supply and demand imbalances through their own procurement of gas and gas services.

Noting there may be occasions where requiring AEMO to relinquish its interests in services under a SoLR contract is not desirable, the flexibility for AEMO to not relinquish its interests in certain circumstances supports AEMO taking a longer-term view on risk and threat management. This is consistent with market efficiency principles. Including greater detail on the relinquishment mechanism in the ECGS Procedures should allow the relinquishment process to adapt to market needs over time.

186 Submission to the consultation paper: Shell Energy, p 4.
187 Draft rule 699K.

7 Implementing a demand-based cost recovery and proceeds distribution approach

The draft rule sets out a practical approach to cost recovery and proceeds distribution that best incentivises efficient market outcomes without imposing undue complexities and costs. This chapter outlines the cost recovery and proceeds distribution methodology for the SoLR mechanism, including:

- Section 7.1 Outlining the proposed cost recovery arrangements in the rule change request
- Section 7.2 Outlining that the trading fund would be replaced with a cost recovery process
- Section 7.3 Describing the Commission's considerations in determining a cost recovery and proceeds distribution methodology
- Section 7.4 Detailing when cost recovery and proceeds distribution would be triggered
- Section 7.5 Explaining the time period and location over which demand is measured
- Section 7.6 Outlining the rationale for distributing any proceeds from the SoLR mechanism to market participants
- Section 7.7 Detailing the transparency arrangements that would apply to AEMO for cost recovery.

Box 5: Draft rule on cost recovery and proceeds distribution

The draft rule:

- replaces the ex ante trading fund, which has provided a $35 million cap (as of June 2022) with a more transparent standardised cost recovery and proceeds distribution mechanism
- specifies that costs are proportionately allocated based on each gas industry participant's (gross) demand for covered gas in the location and at the time of the SoLR intervention
- allows cost recovery to begin only when AEMO establishes a SoLR contract
- requires AEMO to maintain a separate financial account for SoLR purposes
- specifies AEMO settlement (for both cost recovery and proceeds distribution) would occur on a monthly rolling basis until the SoLR service ceases to be used
- states that additional details regarding the process of the cost recovery and proceeds distribution methodology are to be specified by AEMO in the ECGS Procedures.

7.1 Proposed cost recovery arrangements

The rule change request proposed cost recovery and proceeds distribution methodology to replace the $35 million trading fund. The key features proposed were:[188]

- the trading fund would be replaced with a more transparent and equitable cost recovery-proceeds distribution mechanism
- the mechanism could be triggered as soon as AEMO establishes a SoLR reserve
- the mechanism would operate on a monthly basis until the reserve ceases to be used, and the associated costs have been recovered and proceeds distributed

188 Rule change request, p 47.

- the methodology would recover costs from relevant gas entities or NEM participants,in the location(s) the SoLR reserve was established for, based on their share of gas demand in the location(s) in each month the reserve is in place.

The following sets out an assessment of each, having regard to relevant stakeholder feedback and other information.

7.2 Replacing the trading fund with a cost recovery process

The draft rule would replace the ex ante trading fund, which has provided a $35 million cap (as of June 2022)[189] with a more transparent standardised cost recovery and proceeds distribution mechanism.[190]

Stakeholders generally supported the proposed move away from the current trading fund that limits AEMO's expenditure (and the amount ultimately paid by gas market participants). They agreed removing the cap and replacing it with a more standard cost recovery methodology would be a better approach than the status quo.[191] As observed by the proponents, the current trading fund arrangements are less transparent than equivalent mechanisms in RERT and DLNG last resort mechanisms, providing few guardrails and AEMO with a high degree of discretion to establish how the fund works, including cost recovery and proceeds distribution details in the ECGS Procedures.[192]

However, APGA did not support removing the trading fund, although it did support removing the cap of $35 million to provide flexibility for AEMO to respond, as long as costs are reasonably limited.[193] Additionally, Alinta did not support a SoLR mechanism in general and therefore did not support removing the trading fund or expanding the funding available to AEMO.[194]

On balance, the Commission has concluded a standardised cost recovery and proceeds distribution methodology set out in the NGR would provide benefits and better meet the NGO because it would provide more transparency than the current arrangements (or other options such as simply altering the level of the fund), reflecting good regulatory practice. In addition, other guardrails included in the draft rule, such as the preconditions and the high trigger threshold (chapter 5) and the SoLR principles (including setting a price limit, section 4.6) will work together to limit AEMO's use of the mechanism to when it is required, limiting the costs that will flow through to gas industry participants.

7.3 Exploring cost allocation methodologies

This section outlines the bespoke cost recovery and proceeds distribution process that will apply to SoLR related costs not recovered through ECGS participant fees. As noted below, most SoLR related costs are expected to be recovered from ECGS industry participants through this method.

This section discusses the metric on which costs would be allocated under the draft rule (i.e., demand) following an outline of the proponents' proposed approach, stakeholder feedback and the Commission's assessment of alternative cost recovery methods.

189 This amount is subject to annual CPI increases.
190 Draft rule 708.
191 Submissions to the consultation paper: AEMO, p 4; GB Energy, p 5; Shell Energy, p 4; APA, p 15.
192 Rule change request, p 47.
193 Submission to the consultation paper: APLNG, p 7.
194 Submission to the consultation paper, Alinta, p 4.

7.3.1 Proposed approach for cost recovery and proceeds distribution

The rule change proponents proposed costs should be recovered (and proceeds distributed) in proportion to gross gas demand within a relevant time period and location. That is, their share of costs (or proceeds) would equal their demand divided by the total consumption within the relevant time and location.

The proponents noted they gave consideration to other approaches which more closely recovered SoLR costs to their causers, or the beneficiaries of the SoLR, but decided there are significant practical challenges to identifying causers or beneficiaries.[195]

The proponents also suggested SoLR costs could be recovered from NEM participants. It is unclear whether this proposal, to allocate costs to NEM participants (other than gas users), would be feasible or appropriate given the current restrictions in the NGL and the NEL. The Commission's assessment is that changes to the NEL may be necessary before such a cost allocation approach could be employed.[196] Therefore, we do not propose to pursue this option further at this time. However, costs would be partially recovered from NEM participants when costs are recovered from GPGs.

7.3.2 Stakeholder views on how AEMO should recover costs

Some stakeholders – including AEMO – supported the proponents' preferred methodology of cost recovery and proceeds distribution in proportion to market participants' gross demand in a region and time period, noting it would provide transparency, be consistent with existing DLNG arrangements and the Part 27 compensation framework for the ECGS.[197]

However, in principle, many stakeholders supported approaches that more closely allocated the costs of SoLR to those who cause the costs, or the beneficiaries of SoLR, because it would:

- best ensure SoLR is not creating adverse contracting incentives, aggressive portfolio management, or trading practices[198]
- incentivise gas users to mitigate their own demand shortfalls, rather than rely on a subsidised SoLR bailout[199]
- incentivise gas buyers to manage their exposure to gas availability and price fluctuations[200]
- allocate the costs to parties who bear the financial burden and take the risk for establishing and managing the SoLR[201]
- not socialise the costs of establishing a SoLR reserve.[202]

These stakeholders did not provide details about how the approach could specifically work.

Stakeholders did not support smearing costs across the ECGS through a flat or equal-share approach, because it would erode incentives for prudent contracting.[203]

Some stakeholders also suggested:

195 Rule change request, p 48.
196 The same considerations are likely to apply to distributing proceeds to NEM participants.
197 Submissions to the consultation paper: AEMO, p 4; Shell Energy, p 4.
198 Submissions to consultation paper: GB Energy, pp 14-15; APGA, p 7; APLNG, pp 13-14.
199 Submissions to the consultation paper: APLNG, pp 13-14.
200 Submissions to the consultation paper: APLNG, pp 13-14.
201 Submission to the consultation paper: GB Energy, p 15.
202 Submission to the consultation paper: APLNG, pp 13-14.
203 Submissions to the consultation paper: APGA, p 7; EnergyAustralia, pp 2-3.

- Participants should be able to recover direct and indirect costs.[204]
- If a share-of-gas-demand approach is to be applied, the following contracts should be excluded from the denominator of the cost allocation calculation: 1) LNG foundational contracts 2) foundational domestic supply contracts 3) domestic supply agreements of 12 months or longer. These gas demand categories stabilise the market and incentivise domestic production and therefore provide investment certainty.[205]
- The cost recovery mechanism could also vary depending on the type of intervention or event.[206]

7.3.3 Assessing cost allocation methodologies

Testing beneficiary pays cost allocation methodology

As noted, some stakeholders suggest those who benefit from the use of SoLR should be allocated costs accrued from its use. This suggests costs should be recovered from the industry participants who would have otherwise been curtailed, as curtailment would have occurred if not for AEMO's use of SoLR.

However, it would be difficult to accurately identify those beneficiaries if no one is curtailed at all (which is consistent with the use of SoLR). Similarly, even if some participants are curtailed despite the use of SoLR, it would be difficult to identify who could have also otherwise been curtailed.

In brief, the information required to apply a beneficiary pays cost recovery mechanism may not be readily available nor sufficiently reliable for this approach to be successfully used.

Testing causer pays cost allocation methodologies

The Commission understands the views of stakeholders that allocating costs to causers, if a workable methodology were determined, would promote market efficiency by encouraging market participants to better manage their assets.

For these reasons, a causer pays approach where costs are allocated on the basis of net demand (as opposed to the gross demand approach proposed by the proponent) has been assessed carefully. Under this approach, production and financial and physical contracts to buy and sell gas would also be accounted for, so only those who are 'net short' (i.e., consuming more than they produce or contract for) are allocated SoLR costs. This is similar to the way some costs associated with the NEM's RERT mechanism are recovered through the retailer reliability obligation (RRO).[207]

Under a causer pays approach, the concept is that if every individual industry participant meets its own demand, through production or contracts, then the system as a whole must be reliable, and there is no need for SoLR. Therefore, the costs of SoLR are caused by those that are 'short' — who have demand for which they have insufficient supply or contractual volumes.

This contrasts with allocating SoLR costs in proportion to gross demand (as proposed), which could exacerbate shortages because costs are allocated regardless of whether an industry participant has prudently contracted or produced gas to meet its demand. It could then be argued

204 Submission to the consultation paper: Alinta, p 4.
205 Submission to the consultation paper: APLNG, pp 13-14.
206 Submission to the consultation paper: EnergyAustralia, pp 2-3.
207 AEMO, Retail Reliability Obligation-PoLR Cost Procedures.

this disincentivises prudent contracting or production because the costs associated with being 'short' of gas are, in part, shared with many other industry participants.

Despite these benefits, allocating SoLR costs based on net demand (a causer pays approach) has some significant practical challenges. Some of these challenges were acknowledged by stakeholders and the proponents when proposing an approach based on gross demand. Some of these challenges are:

- There does not appear to be an appropriate existing source of information to enable the accurate calculation of net demand (that is, not only consumption and production, but financial and physical contracts). Collecting this information afresh, or modifying existing information collection processes, could be a significant imposition on industry participants and the body responsible for its collection (which could be AEMO or the AER). There is very likely numerous contracts that would need to be collected and analysed to be confident the calculations are accurate.
- The logic of allocating SoLR costs based on net demand is that it more closely allocates the costs of the SoLR to the causers than doing so on gross demand. As some of the SoLR costs are incurred at the time SoLR contracts are entered, this suggests the causers should also be identified at this time (i.e., at a time when shortages are forecast to arise, as opposed to when they actually occur). However, this would require a process for determining each industry participant's position (i.e., whether it is a net supplier or net consumer from the market) at point(s) in time before a SoLR contract is used. This would require AEMO (or the AER) to determine each industry participant's future demand and compare it with current contracts and expected production. This is likely to be a complex, costly and controversial exercise, and if simplifying assumptions were made, then costs may not be accurately allocated to causers. Furthermore, this may reduce the incentive for participants to take remedial action and undermine the benefits of the net demand approach.
- The treatment of financial derivative contracts complicates the analysis. Some industry participants manage the price risk associated with their demand through financial derivatives rather than through physical gas production or physical gas contracts. These derivatives place financial obligations on the industry participant's counterparty (who may, but need not, manage this financial risk through physically selling gas on the spot market). If the counterparty manages their risk physically, then the system is reliable and the two counterparties combined have met their physical demand with physical supply. However, there is no obligation on the counterparty to manage risk by physical delivery. If this scenario arises, then the industry participant and counterparty would have financial contracts not backed by physical gas, severing the link with the physical market. The 'causers' of SoLR costs would be the counterparties to the contracts, but allocating SoLR costs to non-physical market participants is not feasible.

Having noted these challenges, we considered whether it is possible to reduce the costs and complexities of allocating SoLR costs based on net demand through a simplified version. For example, as suggested by some stakeholders, specific types of contracts (such as long-term foundation contracts, which are relatively few) could be taken into account when determining net demand. This might considerably reduce costs and complexities of implementing such a cost allocation methodology because only a small proportion of contracts and production would need to be assessed. It may better approximate the allocation of costs to causers than purely based on gross demand, and so incentivise industry participants to better manage their positions, promoting reliability. Costs could also be partly allocated to a causer and partly allocated by proportion of demand.

However, this could be an oversimplification of the causer pays methodology. This is because industry participants' overall contribution to costs may be poorly reflected in their consumption net of certain contracts. For example, consider a market participant consumes and holds a foundation contract for that consumption, but has also sold physical gas through another contract. If we only take account of the foundation contract, the industry participant would not be allocated any SoLR costs, yet its on-selling the gas means it is short and should be allocated SoLR costs. Additionally, selective inclusion of contractual instruments stifles innovation and could result in inequitable treatment of existing participants compared to new entrants.

In using this simplified causer pay methodology, determining which contracts to include and exclude is challenging and likely to be controversial. Including some contracts but not others inevitably allocates costs to different parties, risks arbitrariness, and could incentivise perverse contracting behaviour. The more contracts that are included in the analysis of net demand, the greater the accuracy, but also the greater the costs and complexities. Any cost recovery methodology that requires judgement on the part of AEMO (or the AER) may lack transparency and be difficult to audit. This would not be consistent with efficient decision-making and good regulatory practice and therefore would not be likely to successfully contribute to the achievement of the NGO. Overall, the costs of implementing a simplified causer pays methodology are likely to outweigh the benefits.

Implementing a demand-based cost allocation methodology

On balance, due to the challenges, complexities, and costs of designing and implementing a more targeted causer pays methodology, the draft rule specifies that costs are allocated by the proportion of (gross) demand from gas market participants in the location and at the time of the SoLR intervention (see below for further discussion on these elements of the methodology).[208]

This approach retains some elements of causer pays, in that those who consume gas at times and locations of reliability threats may likely to be contributing to that event. Those who are consuming gas at other locations and other times are less likely to be contributing to the threat and would not be allocated costs. However, the Commission notes the demand-based approach does not account for how production helps to avoid curtailment. Participants who manage their own demand, for example by contracting for gas, will still pay if the SoLR mechanism is used. Although, it is possible these industry participants may receive the benefit of not being subject to curtailment, which could have otherwise occurred but for the use of SoLR.

Importantly, this is an approach AEMO can readily implement, as it is like the cost allocation methodologies it already implements for DLNG and ECGS compensation. Additionally, having one cost recovery mechanism for all SoLR interventions or events streamlines the approach, making it more practical and transparent. Consequently, it is consistent with good regulatory practice and implementation considerations. Being more readily applicable than alternatives, it should also address the objective of limiting costs for industry participants and gas consumers. Both of these aspects would contribute to the achievement of the NGO.

Despite having some limitations, the draft rule cost recovery process aligns with the views of the proponents, AEMO and other stakeholders[209] who agreed the costs and complexities involved with more accurately allocating costs to causers (or beneficiaries) are likely to outweigh the benefits.

On balance, the Commission's draft determination is that the most appropriate cost recovery approach for AEMO to implement for SoLR is a demand-based approach. As noted below, AEMO

208 Draft rule 708(2). The rule refers to relevant entities as defined in the NGL.

209 Submissions to the consultation paper: AEMO, p 4; Shell Energy, p 4.

will also be required to consider the aspects of locality and timing in applying this methodology. The draft rule would better contribute to the achievement of the NGO for the reasons noted above. It is also preferable to the current arrangements in place and the rule change request proposal because, having regard to the other aspects of the approach, it manages AEMO's cost recovery in a more transparent and timely way.

This aspect of the draft determination was taken into account by the Commission in its consideration of the price limit to be applied to what AEMO pays for SoLR contracts, as discussed in section 4.6.

The implementation of a practical methodology to allocate costs to causers on the basis of net demand would raise less concern about any potential distortionary effects of SoLR. These distortionary effects include withdrawing supply from the spot and contract markets to sell it at a more favourable price (or terms and conditions) through SoLR. Allocating costs based on net demand would have disincentivised this behaviour.

Given the draft rule does not include allocating costs based on net demand due to practical concerns, the maximum price that AEMO expects to pay per GJ of gas for a SoLR service contract should (in general) be lower than the VCR. This limits the distortionary effects and reduces the amount of money flowing through the SoLR mechanism — and hence the total revenue that might be collected from those who meet their demand from their own supply or contracts.

In addition, SoLR is designed to be used in limited circumstances, with other guardrails in place (i.e. triggers and price limit), therefore maintaining incentives to contract in other ways promoting market efficiency. Assessing the mechanism as a whole, the Commission considers the draft rule's cost recovery methodology will not overtly disincentivise participants from taking appropriate actions in response to a threat or to secure contracts. For these reasons, the likelihood that this cost recovery methodology creates perverse incentives is low. Furthermore, if SoLR is rarely used, then the associated costs are likely to be low, meaning any impact on individual consumers will be modest.

Testing implementation of a supply, as well as a demand-based, cost allocation methodology

Another approach is for AEMO to recover SoLR costs from both the supply and demand side industry participants rather than allocate costs according to demand only. Such an approach could reflect a view that producers or pipeline and infrastructure owners could be considered to be the causers of threats and consequently SoLR costs in some circumstances.

However, producers already have a strong incentive to increase supply when the market is tight, either to fulfil contractual obligations or sell at high spot prices. Infrastructure owners would also have an incentive for their facilities to be used. An additional consideration is that recovering costs from producers or infrastructure owners increases their business risks and costs. This could, in turn, reduce their long term incentive to participate in the market, potentially exacerbating reliability issues. Nevertheless, allocating costs to supply side participants may provide incentives for those participants to manage potential gas shortfalls that could lead to reliability issues.

As noted above, successfully identifying supply-side causers of a reliability threat may be practically difficult for AEMO. This suggests that a potential alternative approach that does result in supply-side participants contributing to SoLR costs could be to share SoLR costs across all ECGS industry participants. This would distribute costs among many entities. However, if each participant's potential SoLR cost burden is relatively small, it is likely to diminish any potential incentives to change participant behaviour. As a result, a cost allocation methodology that shares

costs across all ECGS participants, may not be the approach that best contributes to achieving the NGO.

Nevertheless, the Commission recognises that some stakeholders may consider explicit inclusion of supply-side participants in AEMO's SoLR cost recovery approach to be feasible and could better contribute to achieving the NGO.

7.4 Establishing a SoLR contract triggers the cost recovery process

The draft rule allows AEMO to recover costs it incurs after it establishes a SoLR service contract.[210] It creates a specific, bespoke cost recovery (and revenue redistribution) mechanism for:

- amounts paid by AEMO under SoLR contracts
- costs and expenses incurred by AEMO in connection with the relinquishment or termination of SoLR service contracts (see chapter 6)
- all amounts paid or credited to (or earned or received by) AEMO acting as the supplier of last resort.

That is, only costs incurred once a SoLR contract has been established would be recovered through the mechanism – including administrative costs relating to relinquishing the contracts. Other costs incurred before entering into SoLR contracts but relating to the SoLR, such as administrative costs incurred by AEMO in establishing the SoLR competitive tender process, would be shared across all ECGS participants through ECGS fees. This is appropriate as administrative costs incurred prior to establishment of SoLR service contracts are anticipated not to be material. It also aligns with the operation of the SoLR mechanism that AEMO may only contract for a SoLR service once the specified preconditions are satisfied (see chapter 5).

Stakeholders supported a bespoke, SoLR-specific cost recovery and proceeds distribution commencing only when a SoLR mechanism has been triggered. In their view, this would provide transparency to participants and stakeholders.[211] This is consistent with the proponents' view the cost recovery mechanism should be triggered when AEMO establishes a SoLR reserve.[212]

The Commission considers triggering cost recovery when AEMO incurs costs after establishing a contract is appropriate because cost recovery should be linked to when AEMO incurs material costs when acting as the supplier of last resort.

7.5 When the cost allocation process applies

An earlier section discussed that gross demand would be the metric on which the majority of SoLR-related costs would be allocated, noting costs incurred prior to entering SoLR contracts will be recovered through participant fees. This section discusses the specific time period and location of demand that will feed into AEMO's SoLR cost recovery calculation.

The proponents suggested costs should be allocated based on demand in the location(s) the SoLR reserve was established for in each month the reserve is in place.[213]

Having considered the request and stakeholder views, the draft rule is broadly consistent with the proposal. Costs would be allocated:

210 See definition of 'AEMO SOLR costs' in draft rule 680.
211 Submissions to the consultation paper: GB Energy, 14; Shell Energy, p 4.
212 Rule change request, p 47.
213 Rule change request, p 47.

- to each relevant entity (as defined in the NGL)
- in proportion to their respective demand for covered gas in the region(s) to which the tier 3 threat relates[214] (without double counting)
- between the date AEMO published the notice of the time for industry to respond, and the date that AEMO publishes a revocation of the tier 3 threat notice.

In relation to these cost allocation determinants:

- Focusing cost recovery on the location of the identified threat is preferable to enabling cost recovery to be applied to a broad geographic area, as the participants in the relevant location are more likely to be the participants that may have contributed to the threat or have benefited from SoLR being used (as it would have reduced or negated the need for curtailment under direction by AEMO). The alternative of enabling costs to be recovered from participants across a jurisdiction, or the ECGS as a whole, could result in costs being attributed to many participants who were not impacted by the reliability threat at all.
- Having regard to the information available to it, AEMO will issue a notice that specifies how long industry participants have to resolve the identified risk or threat.[215] The draft rule cost allocation method takes the date on which this notice is issued as the date from which to have regard to participants' demand to later allocate SoLR costs. This aligns industry participants' ability to address the identified threat with the subsequent SoLR costs they will incur. That is, if participants address (in whole or in part) the identified threat in response to AEMO's notice, they may incur lower (or no) SoLR costs (noting that the extent costs are shared may impact this effect).

Both of these cost allocation determinants broadly provide incentives for industry participants to manage and respond to a threat to reliability by encouraging them to minimise their costs where possible. This supports the intent of the SoLR mechanism (as proposed and reflected in the draft rule) to enable industry participants to manage risks and threats to reliability first and only enable AEMO to intervene if necessary. As a result, these aspects of the draft rule cost allocation mechanism are aligned with principles of market efficiency and good regulatory practice, and would contribute to achievement of the NGO.

Under the draft rule, AEMO will provide additional details on this cost recovery mechanism feature in the ECGS Procedures.[216]

7.6 Redistributing proceeds from relinquishing SoLR contracts

As discussed in chapter 6, AEMO may relinquish services, rights or entitlements available to it under a SoLR service contract. This may result in revenues for AEMO. In addition, depending on the contractual details, there may be circumstances where SoLR contracts result in proceeds to AEMO (for example, liquidated damages arising under the contract).

The proponents proposed that any such proceeds should be distributed back to relevant entities using the same process used for cost recovery.[217] Stakeholders who supported the proponent's approach to cost recovery agreed.[218]

214 AEMO can determine appropriate regions for the purposes of the SOLR mechanism under draft rule 681B. AEMO would have the discretion to set regions for cost recovery that are more location specific, i.e. not too broad.

215 ERSAA draft rule 696A.

216 Draft rule 709.

217 Rule change request, p 47.

218 Submissions to the consultation paper: AEMO, p 4; Shell Energy, p 4.

The Commission also considers that distributing proceeds and costs should be treated the same way.[219] This means proceeds will offset the SoLR costs allocated to relevant entities. Utilising the same methodology for distributing proceeds as for recovering costs also avoids the cost and complications of creating a specific distribution methodology. Overall, the Commission considers using the same arrangements is fit for purpose and would contribute to the achievement of the NGO as it would help minimise gas consumer costs and be consistent with good regulatory practice.

7.7 Improving transparency about cost recovery and proceeds distribution

The draft rule would require AEMO to consult on, establish and implement a cost recovery and proceeds distribution methodology in accordance with the approach outlined above.[220] The Commission considers this approach is transparent, simple, and auditable. This promotes achieving the NGO, and is more preferable than the current arrangements because the new arrangement would support efficient decision-making, reduce administrative costs and errors, and promote confidence and certainty on the operation of SoLR.

Stakeholders supported additional transparency, as outlined below.

7.7.1 AEMO would establish and maintain a separate financial account

The draft rule would require AEMO to maintain a separate financial account for SoLR purposes.[221]

Stakeholders supported AEMO maintaining a separate financial account as it provides added transparency and accountability, helps ensure costs are accurately attributed to the SoLR mechanism, and supports robust financial governance and auditability.[222]

The Commission considers a separate financial account would provide an added layer of accountability and transparency for AEMO's SoLR activities, consistent with good regulatory practice and contributing to the achievement of the NGO. While it may create some additional costs for AEMO, it would also impose greater discipline on AEMO in terms of the costs it incurs and provide industry participants with added confidence around the need and appropriateness of those costs.

7.7.2 AEMO settlement would occur on a monthly basis to allow for timely cashflow

The draft rule specifies AEMO settlement (for both cost recovery and proceeds distribution) would occur on a monthly rolling basis (provided AEMO incurred SoLR costs or received SoLR proceeds in the previous month).[223]

The Commission considers, like the proponents, this monthly approach would allow for timely cashflow, enabling AEMO to recover costs in a more efficient manner than if it were only able to recover costs once the SoLR contract(s) were used.[224] Managing costs on a monthly basis would be consistent with good regulatory practice and aligned with contributing to achieving the NGO.

219 See draft rule 708.
220 Draft rule 709.
221 Draft rule 710.
222 Submissions to the consultation paper: GB Energy, p 16; APGA, p 7; APLNG, p 15; APA, p 16.
223 Draft rule 708(3).
224 Rule change request, p 47.

7.7.3 AEMO procedures would support cost recovery arrangements

The draft rule also specifies additional details regarding the process of the cost recovery and proceeds distribution methodology are to be specified by AEMO in the ECGS Procedures.[225]

Stakeholders support operational and process guidance being in procedures.[226]

The Commission considers AEMO is best placed, in consultation with stakeholders, to provide operational and process guidance in the ECGS Procedures. These include:

- the nature and category of payments, costs, and expenses that AEMO may incur and recover as AEMO SOLR costs
- the nature and categories of the amounts paid or credited to AEMO as AEMO SOLR proceeds
- a method and process for determining the proportionate allocation of costs incurred and proceeds (which must be consistent with the approach outlined above)
- the establishment and operation of the financial account.

AEMO's operational role in developing these procedures appropriately reflects its role as an energy market body. This is consistent with principles of good regulatory practice and would therefore contribute to the achievement of the NGO.

225 Draft rule 709.

226 Submissions to the consultation paper: APA, p 16; Alinta, p 4; APLNG, pp 14-15.

8 Improving transparency and accountability for SoLR

In line with feedback on the consultation paper, the draft rule details how AEMO will provide transparency through market notices and accountability for using the mechanism through reporting. This chapter outlines the transparency and accountability measures for the SoLR mechanism:

- Section 8.1 Outlining the proponent's proposed transparency and accountability arrangements
- Section 8.2 Detailing the market notification process that AEMO would utilise to inform participants
- Section 8.3 Outlining the reporting requirements that AEMO would have to uphold transparency and accountability

An outline of the draft rule discussed in this chapter is provided in the box below.

Box 6: Draft rule on market notices and reporting requirements

The draft rule:

- Integrates SoLR notices with the tiered risk or threat signalling framework to provide participants with visibility and timely information about AEMO's risk or threat status and SoLR response. This would provide participants with sufficient opportunity to respond to prevent an intervention.
- Requires AEMO to publish:
  - an initial post-SoLR activation report no longer than one month after the intervention
  - a detailed post-SoLR activation report no longer than four months after the intervention
  - a report to energy ministers and affected jurisdictions.
- AEMO would also be required to inform Ministers of relevant participating jurisdictions of their intention to tender for SOLR service contracts and the expected costs associated with activating any service contracts.
  -
  -

8.1 Proposed transparency and accountability arrangements

The rule change request proposed changes to the existing transparency and accountability provisions for the trading function. These were:

- actions-based market notices, where AEMO would publish five sequential notices that indicate an escalation in AEMO's SoLR response to a threat to reliability and supply adequacy being including:
  - risk or threat notice (existing notice rule 695)
  - reserve establishment notice (new notice)
  - potential intervention notice (new notice)
  - actual intervention notice (new notice)
  - cessation of intervention notice (amendment to an existing notice)

- reporting requirements to build on the existing accountability measures set out in both the NGL and NGR of:
  - a post-intervention report four months after AEMO exercises SoLR
  - biannual SoLR activity reports on SoLR activities over the preceding six months
  - report to energy ministers and affected jurisdiction(s).

The following sets out an assessment of each, having regard to relevant stakeholder feedback and other information.

8.2 Improved market notices to better inform the market

In line with the intent of the rule change request, the draft rule provides industry participants with visibility into, and timely information about, AEMO's SoLR response so industry participants have sufficient opportunity to respond and prevent an intervention.

The proponents and stakeholders noted that market-led responses will generally result in more efficient outcomes than intervention by AEMO.[227] Stakeholders remarked that to aid in informing the market and provide transparency, the design of the market notices should:

- not be excessive, and should streamline the current ECGS notification requirements to reduce administrative burden and minimise the risk of information fatigue[228]
- align with the threat signalling framework proposed in the ECGS reliability and associated settings work.[229]

The Commission considers:

- Market-led responses are preferred to AEMO interventions; therefore improving market notices and providing more timely and transparent information would enhance the ability of participants to respond.
- SoLR notices should be integrated into the tiered signalling framework to provide a streamlined approach to ECGS risk and threat communication and management. This will help promote consistency in how reliability risks are assessed and how AEMO's powers are applied.

8.2.1 Transparency improvements through introducing new notices

The draft rule integrates SoLR notices with the ERSAA draft rule for the tiered risk or threat signalling framework.[230]

Stakeholders supported the proponent's proposed market notices on the basis that, compared to the status quo, they provided appropriate detail and transparency to understand the nature of reliability risks and threats.[231] The current notice requirements in the NGR (established through the stage 1 RSA reforms) apply to both AEMO's ECGS direction and trading functions. These arrangements provide AEMO with a high degree of flexibility in publishing a risk or threat notice. See table 8.1 below, which outlines the existing ECGS market notifications.

227 Rule change request, p 8.
228 Submission to the consultation paper: APLNG, pp 15-16.
229 Submissions to the consultation paper: Shell Energy, pp 4-5; Alinta, pp 4-5; EnergyAustralia, pp 2-3; ERSAA draft determination, chapter 3.
230 Draft rules 695, 696, 696A, 696B; Draft determination ERSAA, chapter 3.
231 Submissions to the consultation paper: GB Energy p 16; Shell Energy, pp 4-5.

Table 8.1: Existing ECGS market notifications

Notice	Explanation
Risk or threat notice (rule 695)	AEMO must publish this notice if an actual or potential risk or threat to the reliability or adequacy of supply of gas is identified (except if it considers that there is insufficient time to publish the notice before exercising its direction or trading function). A notice must include: • the identified risk or threat • the nature and magnitude of the identified risk or threat • the likely duration of the identified risk or threat • the location of the identified risk or threat • the industry response, if any, that AEMO considers necessary to prevent or mitigate the identified risk or threat, including the duration of the response.
Variation or revocation of risk or threat notices (rule 696)	As soon as reasonably practicable, AEMO must publish notice of a variation or revocation of a risk or threat notice (in accordance with the procedures) if it considers that: • there is a material change in the nature or circumstances of the identified risk or threat specified in the notice • it is necessary to publish further information relating to the nature or circumstances of the identified risk or threat or the industry response specified in the notice • the identified risk or threat specified in the notice is unlikely to be resolved or mitigated if AEMO does not exercise a direction or trading function within a further period specified in the variation, or • the identified risk or threat specified in the notice no longer meets or exceeds the criteria specified in the procedures.
Publication of direction or trading notices (rule 697)	AEMO must publish a notice as soon as reasonably practicable after the exercise of a direction or trading function, in accordance with the procedures. The notice must contain: • details of the risk or threat notice, including where the notice is available • a statement that the function has been exercised in relation to the identified risk or threat specified in the risk or threat notice. If a risk or threat notice was not published, this notice should also contain details of the risk or threat (including nature and magnitude, likely duration and industry response).

Source: AEMC.

However, the proponents proposed that SoLR should instead include actions-based market notices (see table 8.2 below for the proponent's proposed market notices), where AEMO would publish five sequential notices that indicate an escalation in AEMO's SoLR response to a threat to reliability and supply adequacy. These notices would provide participants with greater visibility and timely information about any reliability and supply adequacy threats facing the ECGS, including providing the market with sufficient opportunity to respond.[232]

232 Rule change request, p 49.

Table 8.2: Proposed actions based market notices

Notice	To be published	To contain
1. Risk or threat notice (existing notice rule 695)	As soon as reasonably practicable, if AEMO identifies an actual or potential risk or threat to the reliability or adequacy of the supply of gas within the ECGS that meets or exceeds the criteria specified in the procedures.	Description of: • the identified risk or threat • the nature and magnitude, location and likely duration of the identified risk or threat • the market response, if any, that AEMO considers necessary to prevent or mitigate the identified risk or threat, including the duration of the response.
2. Reserve establishment notice (new notice)	As soon as practicable, if AEMO decides to establish a SoLR reserve, or it considers it necessary to procure additional SoLR reserves.	Description of: • why it intends to establish a SoLR reserve • the form the reserve will take (i.e. Storage SoLR reserve or Other SoLR reserve) • the location(s) that the SoLR reserve is being established for • the likely size and duration of the SoLR reserve
3. Potential intervention notice (new notice)	As soon as reasonably practicable, if there are any foreseeable circumstances that may require AEMO to intervene in the ECGS, by using SoLR.	Description of: • the nature and magnitude, location and likely duration of the forecast breach of the reliability standard • the market response that AEMO considers necessary to prevent or mitigate the forecast breach • the circumstances that may require AEMO to use the SoLR reserve • the latest time by which AEMO would need to use the SoLR reserve if the market fails to address the forecast breach. AEMO would also be required to regularly review the latest time estimate and publish any revisions to the estimate in a variation to the notice.
4. Actual intervention notice (new notice)	Immediately, if the latest practicable time for AEMO to intervene has been reached and the risk or threat to the reliability or adequacy of supply has not been alleviated.	Description of: • the circumstances that have required AEMO to use the reserve • the location(s) the reserve is being used for

Notice	To be published	To contain
		• the likely duration of the use of the reserve.
5. Cessation of intervention notice (amendment to an existing notice)	As soon as reasonably practicable, after AEMO has ceased to intervene in the ECGS.	Description of: • the circumstances that required AEMO to use the reserve • the location(s) for which the reserve was used • how long the reserve was used for.

Source: Rule change request, p 50.

The Commission considers the intent of the proponent's proposed notices, to provide visibility and more detailed information, should be upheld. However, the notices should account for the interdependencies with the ERSAA draft rule, which includes a more sophisticated, tiered risk or threat signalling framework than the current 'flat' or non-tiered system, to enable market participants to respond with measures proportionate to the nature of the risk or threat.[233]

Integrating SoLR notices and the tiered signalling framework

Stakeholders also supported integrating the proposed notices into the tiered risk or threat signalling framework, requesting the NGR provide more detailed guidance on how the tiers are determined and how they interact with SoLR to aid AEMO and industry in implementing a framework that gives the market a real opportunity to respond before AEMO intervenes.[234]

The consultation paper suggested a SoLR reserve may be established if a tier 2 risk or threat alert is notified.[235] In line with feedback to the SoLR consultation paper, the reliability standards and associated settings directions paper, and further refinement of the risk or threat signalling framework, the draft rule enables AEMO to contract for SoLR services after a tier 3 risk or threat alert when a notice about the latest practicable time for an adequate response is provided.[236] The Commission considers this timing is more appropriate because it:

- would ensure the market has every adequate chance to respond
- aligns with the last resort nature of a SoLR mechanism by clarifying that SoLR is not established unless absolutely required
- mitigates SoLR services being contracted in circumstances where a tier 3 is not reached, therefore minimising costs and administrative burden on AEMO and participants, ultimately benefitting consumers
- is commensurate with what it is designed for, i.e. SoLR is not for emergencies but for events that can be forecasted.

As a result, the SOLR draft rule notice framework is complementary to, and integrated with, the ERSAA draft rule tiered signalling framework. The Commission considers integrating and streamlining SoLR notices with the tiered signalling framework would be appropriate and better than the status quo, and would promote the NGO, because:

233 AEMC, ERSAA Draft determination, chapter 3.
234 Submissions to the consultation paper: AEMO, p 3; Shell Energy, pp 4-5; Alinta, pp 4-5; CS Energy, p 3; EnergyAustralia, pp 2-3.
235 AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, pp 64-65.
236 Draft rule 369B(1).

- it would provide clarity to the market in line with good regulatory practice because having too many market notices that overlap (i.e. have similar or identical function, timing and information) could cause confusion, taking away from transparency and the market's ability to respond
- it would remove unnecessary duplication and provides clarity on when and how AEMO must communicate to the market, which is currently missing from the trading function
- it is better than the status quo where currently the flat notice structure (that there is either a notice of a risk or threat to the reliability and supply adequacy in the ECGS or there is not) provides AEMO with an almost unfettered level of discretion on when to activate the trading function. While this approach could be advantageous in a rapidly changing environment, such an as an emergency, it also creates uncertainty for market participants and other interested stakeholders. Additionally, the Commission does not consider SoLR to be an appropriate tool for emergencies, see chapter 6.
- the current flat notice structure does not support the 'last resort' concept of SoLR, which is important to enable industry participants to respond to threats before AEMO intervenes.

The table below shows how the draft rule integrates the information contained in SoLR market notices into the tiered threat and risk signalling framework. See section 3.2 of the ERSAA draft determination for details on what information would be provided in the tiered risk or threat notices.

Table 8.3: An integrated SoLR and tiered signalling framework

Tier (risk and threat signalling framework)	What the tier indicates*	Notice requirement details (ERSAA)	SoLR information that may be included
Tier 1	Early warning: LOW risk of supply not meeting demand	Risk or threat notice (MONITOR)	
Tier 2	Alert: MEDIUM risk of supply not meeting demand	Risk or threat notice (WARNING)	
Tier 3	Emergency: HIGH risk of supply not meeting demand	Risk of threat notice (ALERT)	
		Latest practicable time for an adequate industry response (Draft rule 696A(1))	AEMO intends to tender for SOLR contracts, if AEMO determines this is the best approach or tool to manage the threat (draft rule 696B(1)). Identifying: • why AEMO intends to establish a SoLR service contract • actions AEMO considers would constitute an adequate industry response
		No adequate	AEMO intends to activate SoLR

Tier (risk and threat signalling framework)	What the tier indicates*	Notice requirement details (ERSAA)	SoLR information that may be included
			contracts, if AEMO determines that this is the best approach or tool to manage the threat (draft rule 696B(2)). Identifying:
		industry response has occurred (Draft rule 696A(3))	• updated timing, duration and location(s) of the threat • types of service contracts AEMO may activate • the circumstances that may lead AEMO to activate the service contract
		Variation or revocation of risk or threat (Draft rule 696)	AEMO has ceased to activate SoLR contracts, if a threat has also ceased (draft rules 696B(5) and 696(3)(e)). AEMO may also re-issue/amend a notice to indicate that a SoLR intervention has ceased if a threat is still ongoing, identifying: • the circumstances that caused AEMO to activate SoLR • the extent to which it contributed to addressing or mitigating the threat • the period during which it was activated • AEMO's planned use for any contracts which were not fully utilised including relinquishment or termination.

Source: Draft rules 696; 696A; 696B.
Note: * This is for illustrative purposes only.

8.3 Improving AEMO's accountability obligations

The draft rule would require AEMO to publish two post intervention reports and report to energy ministers and affected jurisdictions.[237]

The proponents proposed various reporting requirements to build on the existing accountability measures set out in both the NGL and NGR. These were:[238]

237 Draft rule 699M and rule 711 of the NGR.

238 Rule change request, p 51.

- a post intervention report four months after AEMO exercises SoLR
- biannual SoLR activity reports on SoLR activities over the preceding six months
- report to energy ministers and affected jurisdiction(s).

The proponents stated the proposed accountability measures are intended to provide market participants and other interested parties with greater transparency of AEMO's SoLR activities. They are also intended to impose additional discipline on AEMO regarding the costs it incurs and the efficiency with which it uses any SoLR contracts it has established.[239] See figure 8.1 below.

Stakeholders supported transparent reporting measures, on the grounds reporting would enable trust to be built among AEMO, market participants and consumers. Stakeholders considered:[240]

- biannual reporting may not provide value, as the information that would be in the biannual reports should be incorporated into the post-intervention report (where relevant) or published in AEMO's annual report to maintain transparency but avoid administrative burden[241]
- mandatory post-intervention reports would play a vital role in promoting transparency and accountability around AEMO's use of SoLR, and should include information such as the rationale for activation, cost recovery and costs incurred[242]
- one month is too short for AEMO to provide a comprehensive analysis and information about an event, and therefore a one-month post-intervention report, followed by a four-month post-intervention report is more useful and would allow AEMO to provide sufficient information.[243]
- annual ministerial reporting requirements may be unnecessary, given Ministers can request information at any time under section 91AE of the NGL.[244]

In contrast, EnergyAustralia supported biannual reporting on AEMO's SoLR reserve holdings and costs.[245]

The Commission observes that currently, under the trading function, AEMO has limited transparency obligations to industry participants or governments. We have made a draft rule setting out a new reporting regime of:

- an initial post-SoLR activation report no longer than one month after the intervention
- a detailed post-SoLR activation report no longer than four months after the intervention
- an annual report to ministers and jurisdictions on all ECGS activities (an existing requirement).

In considering stakeholder feedback, the Commission considers there would be limited value in AEMO publishing biannual reports because, in line with the intent it is a last resort mechanism, SoLR services would be contracted infrequently and so the need for rolling six-monthly reports would likely be an administrative burden without commensurate benefit. Additionally, unlike the rule change request which proposed one, the Commission is proposing two mandatory post-intervention reports that should provide sufficient information on AEMO's SoLR activities. For the same reasons, replacing the biannual reporting requirement with an annual reporting requirement is not supported.

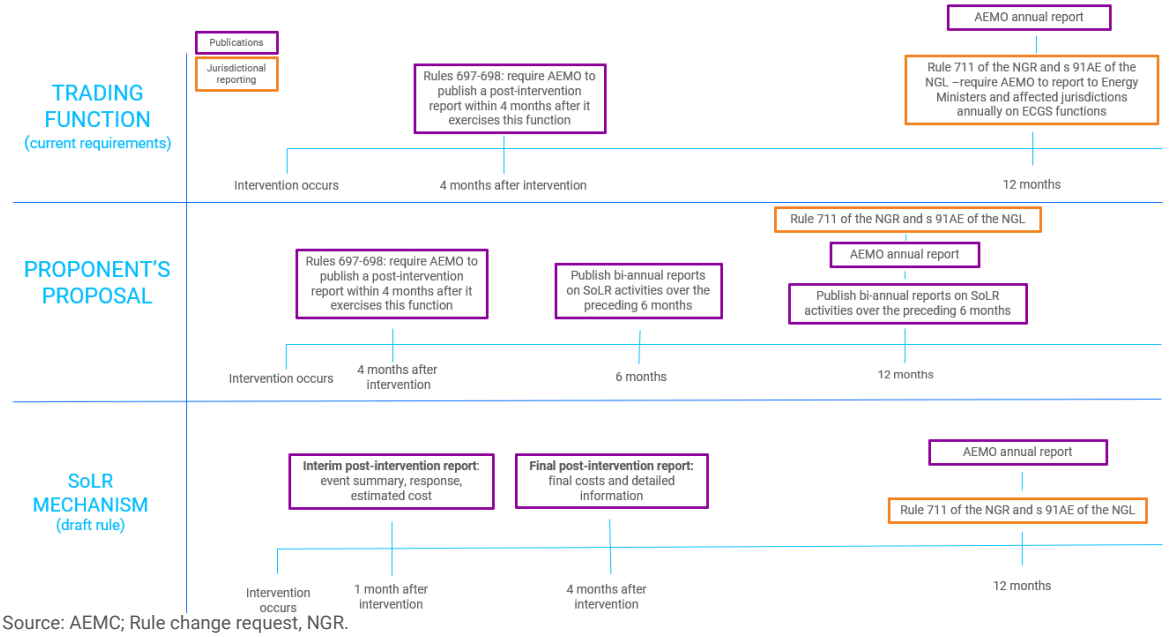
The draft rule provides an appropriate balance between enabling market participants to be well-informed about important matters, such as market interventions, and the administrative costs to

239 Rule change request, p 51.
240 Submissions to the consultation paper: APA, p 16; APLNG, p 2; EnergyAustralia, p 2; EUAA p 4.
241 Submission to the consultation paper: APLNG, p 2 and p 17; AEMO, p 4.
242 Submissions to the consultation paper: Origin, p 5; EnergyAustralia, p 2.
243 Submissions to the consultation paper: Shell Energy, pp 4-5; AEMO p 4; APLNG, p 17; GB Energy, p 16.
244 Submission to the consultation paper: AEMO, p 4.
245 Submission to the consultation paper: EnergyAustralia, p 2.

AEMO. For these reasons, the Commission is satisfied that the draft rule contributes to achieving the NGO.

See figure 8.1 below for a comparison of current, proposed and draft rule reporting requirements

Figure 8.1: Comparison of accountability measures



Source: AEMC; Rule change request, NGR.

8.3.1 AEMO would publish an initial post-SoLR activation report

The draft rule requires AEMO to publish an initial post-SoLR activation report within one month of issuing an end of activation notice.[246] This report would include information on:

- a summary of how AEMO acted as the supplier of last resort
- AEMO's assessment of the extent to which its actions mitigated the relevant threat
- AEMO's estimated expenditure
- AEMO's cost recovery methodology and process
- any other matters AEMO considers appropriate.

Currently, rule 698 of the NGR requires a post-intervention report to be published within four months of the directions or trading function being exercised. However, AEMO has published post-intervention reports more promptly than required by the NGR, and as noted above AEMO has indicated it would be capable of publishing an initial report no longer than one month after the intervention has ceased.[247]

Therefore, requiring AEMO to provide an initial report no longer than one month from when the intervention has ceased is achievable. It would provide a more prompt reporting regime, further enhancing accountability. As an initial report, AEMO can provide timely and useful information to market participants. This would support better informed decision-making for industry participants, consistent with promoting better market outcomes and ultimately benefiting consumers.

246 Draft rule 699M(1)-(2).
247 Rule change request, p 52.

8.3.2 AEMO would publish a detailed post-SoLR activation report

The draft rule requires AEMO to publish a detailed post-SoLR activation report within four months of issuing an end of activation notice.[248]

The detailed report would include the same information as the initial report although in greater detail. In addition, it would include:

- the events leading up to the exercise of SoLR, including the reasons why SoLR was exercised and matters AEMO considered before deciding to do so
- the extent to which the services contracts contributed to addressing or mitigating the threat
- AEMO's total expenditure incurred in connection with its actions as the supplier of last resort
- a detailed breakdown of AEMO's final cost recovery and proceeds distribution.

The Commission considers the costs of AEMO providing two post-intervention reports are not significant. The benefit of the reports is they would better provide useful and timely information to industry participants (and jurisdictions and other interested parties) compared to one post-intervention report and biannual reporting. This, in turn, can promote better market outcomes and ultimately benefit consumers.

8.3.3 AEMO would report to energy ministers and affected jurisdictions

Under the draft rule, AEMO would retain its existing reporting requirements to energy ministers and affected jurisdictions about its use of the SoLR mechanism.[249] AEMO would also be required to inform Ministers of relevant participating jurisdictions of their intention to tender for SOLR service contracts and the expected costs associated with activating any service contracts.[250]

The Commission considers it appropriate to retain annual ministerial reporting requirements as this obligation refers to all ECGS functions, not just SoLR. As mentioned above, AEMO questions the need for this reporting requirement, given Ministers can request information. However, the Commission is of the view that removing SoLR reporting from rule 711 would create an inconsistency in reporting arrangements. An annual report should provide a complete overview of all AEMO's ECGS activities, acknowledging there is a single reliability and supply adequacy framework. The Commission anticipates any new roles and responsibilities given to AEMO through the LT RSA (see chapter 4) reforms currently under consultation would also become part of this annual report.

248 Draft rule 699M(3)-(4).
249 Rules 711 and 712 of the NGR.
250 Draft rule 696B(4).

9 Implementation and transitional arrangements

In line with feedback to the consultation paper, the draft rule details transitional arrangements for the trading function, trading fund, and implementation markers, including the timeframe for updates to AEMO's procedures and guidelines. In this chapter:

- Section 9.1 Detailing the implementation and transitional arrangements proposed by the proponent
- Section 9.2 Outlining the transitional arrangements for the trading function and fund
- Section 9.3 Providing AEMO nine months to update procedures and guidelines
- Section 9.4 Describing potential implementation costs.

An outline of the draft rule discussed in this chapter is provided in the box below.

Box 7: Draft rule on transitional and implementation arrangements

The draft rule:

- provides that, if AEMO is exercising the current trading function under the existing Part 27 rules at the time the new rules commence (April 2027), AEMO can complete that activity under the current rules
- provides that, if AEMO has any funds in the trading fund at commencement (or after completing the activity referred to above), AEMO would refund those amounts
- requires AEMO to consult on and update relevant procedures and guidelines, including the ECGS Procedures, by no later than April 2027.

9.1 Proposed implementation and transitional arrangements

The rule change request identified there would be implementation considerations for SoLR, and proposed transitional arrangements for the trading function. These were:[251]

- Transitional arrangements for the trading function:
  - If, at the time the rules are implemented, AEMO is in the process of exercising the trading function, then the new rules will not apply. AEMO would instead act under the existing trading function rules.
  - If, at the time the rules are implemented, the trading function includes any amounts that have been contributed by relevant entities (as opposed to being funded by an AEMO debt facility), AEMO would be required to refund the contributions to relevant entities in proportion to their contributions.
- AEMO would have six months from the publication of the final rule to update ECGS guidelines and procedures
- There would be some implementation costs associated with AEMO updating guidelines and procedures, developing standard form reserve contracts, and developing the cost recovery and proceeds distribution mechanism.

The following sets out an assessment of each, having regard to relevant stakeholder feedback and other information.

251 Rule change request, pp 52-53.

9.2 Transitional arrangements for the trading function and fund

The draft rule provides transitional arrangements for the trading function and fund, which would apply if they are being exercised at the time the draft rule commences.

9.2.1 Existing rules would continue to apply if the trading function is being exercised

The draft rule allows for the continuation of the current trading function to be exercised under the existing Part 27 rules in the event AEMO has not yet completed its exercise of the trading function at the time the new rules commence.[252] Stakeholders agreed with this approach.[253] This approach would mean the existing rules in Part 27 of the NGR would continue to apply, where those rules relate to the exercise and completion of the trading function, until AEMO has completed or ceased exercising the trading function. This would include cost recovery, proceeds distribution and reporting.

9.2.2 AEMO would refund money held in the trading fund

The draft rule provides that AEMO would refund any money held in the trading fund, either upon commencement of the new rule or upon completion of the exercise of the trading function if it is being utilised at the time the new rule commences.[254] AEMO would make any required repayments of any debt facility established by AEMO for the purposes of the trading fund, and if at the time the new rules are implemented, the trading fund includes any amounts that have been contributed by relevant entities, AEMO would be required to refund each relevant entity in proportion to their respective contributions.[255] The Commission understands that currently the trading fund is a debt facility, meaning AEMO has not asked for contributions from participants, and as such, no participants would currently require refunding.

Stakeholders agreed with the approach outlined above.[256]

9.2.3 The transitional arrangements would promote the NGO

In line with stakeholder feedback, the Commission considers these transitional arrangements regarding the trading fund will help ensure the new framework is workable and fit-for-purpose, in the long-term interest of consumers. The approaches described above would:

- Be consistent with good regulatory practice and promote predictability and stability around how the rules would function at the time the new rule commences, if the trading function is being exercised.
- Benefit AEMO and market participants by providing continuity and clarity of processes. This means AEMO's existing function is not unnecessarily interrupted by any new rules. AEMO would need to comply with any existing transparency and accountability requirements associated with using the existing trading fund.
- Manage the complexity of implementation considerations while ensuring timely implementation of the stage 2 RSA reforms.

252 Draft transitional rule 123.
253 Submissions to the consultation paper: GB Energy, p 17; APA, p 17.
254 Draft transitional rule 124(1).
255 Draft transitional rule 124.
256 Submissions to the consultation paper: GB Energy, p 17; APA, p 17.

9.3 AEMO would update procedures and guidelines by April 2027

The draft rule provides AEMO until April 2027 (the commencement date of the main rule, approximately nine months after the AEMC publishes the final rule) to consult on and update the relevant procedures and guidelines.[257] This differs from the rule change request, which proposed that, within six months of the date the AEMC publishes the final rule, AEMO would update and publish the ECGS Guidelines and Procedures.[258]

Information to be contained in AEMO guidelines or procedures would include:[259]

- details on SoLR gas supply and withdrawals in the STTM (to be contained in the STTM Procedures)[260]
- details on the injection of gas into the DWGM by a SoLR service supplier (to be contained in the gas scheduling procedures)[261]
- eligibility criteria for bidders with respect to their financial and technical capabilities[262]
- details on the competitive tender process, tender assessment criteria, and entering into and activating SoLR service contracts with SoLR service suppliers[263]
- the process and requirements for relinquishment and termination of SoLR service contracts[264]
- details of the cost recovery and proceeds distribution processes, including how AEMO would determine regions to be used for those processes[265]
- technical and operational requirements for administered demand response[266]
- information, technology, and systems requirements for administered demand response.[267]

Stakeholders considered six months was not an appropriate amount of time, advocating for an implementation timeframe between nine and twelve months, due to the scope of procedural, contractual, and operational deliverables required.[268] They advocated for a longer timeframe on the basis that it would:

- allow for 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[269]
- allow AEMO to consult meaningfully with industry and develop standard contracts[270]
- provide time to align with related ECGS reforms.[271]

257 Draft transitional rule 125.
258 Rule change request, p 53.
259 Draft rules 699D, 699K. This is not an exhaustive list. AEMO guidelines and procedures would be created and updated following AEMO's consultative process.
260 Draft rules 135EA, 450A.
261 Draft rule 286D.
262 Draft rule 699F.
263 Draft rules 699D. 699G.
264 Draft rules 699K, 699L.
265 Draft rule 681B.
266 Draft rule 699D.
267 Draft rule 699D.
268 Submissions to the consultation paper: AEMO, p 4; APLNG, p 2 and 18; Origin, p 5.
269 Submissions to the consultation paper: AEMO, p 4; APLNG, p 2.
270 Submissions to the consultation paper: APLNG, p 2 and 18; Origin, p 5.
271 Submission to the consultation paper: APLNG, p 2 and 18.

Currently, the final determination and final rule (if made) is scheduled to be published on 25 June 2026. The rule change request proposes AEMO would use the standard consultative procedure (which AEMO uses for other procedures and guidelines) to develop and update these documents. This process involves two rounds of consultation.[272] It is important the procedures and guidelines are finalised before winter 2027 to avoid impacting the potential use of the SoLR mechanism for that season.

The Commission, in considering the rule change request and stakeholder feedback, considers that providing AEMO until 1 April 2027 to update guidelines and procedures strikes the appropriate balance as it:

- recognises implementation considerations, taking into account government and AEMO desire for stage 2 RSA implementation for winter 2027 while enabling AEMO to undertake meaningful consultation
- enables meaningful consultation with market participants in developing the procedures/guidelines which will help promote market-led responses by ensuring the framework is workable for all participants
- balances transitional arrangements with timely implementation, which is important to promote market-led responses by ensuring the framework is workable for all participants.

9.4 Implementation costs

Implementing the SoLR mechanism would require AEMO to consult on and prepare procedures and guidelines, and set operational details, including establishing a tender process. Stakeholders can participate in AEMO's consultative processes.

As a result, AEMO and market participants will incur one-off and administrative costs to develop the required documents and provide submissions and feedback. Additionally, market participants may need to change their systems and business practices to accommodate the introduction of the SoLR mechanism. These changes would also be considered implementation costs.[273]

Stakeholders consider the design of the procurement framework requires clear direction, otherwise SoLR risks imposing substantial and unnecessary costs on consumers due to over– or under– procurement.[274]

Based on information available to date, the Commission considers the implementation costs are likely to be relatively low, and notes:

- one-off establishment costs are justified on the basis that they are one-off and anticipated to be minimal
- administrative costs associated with the operation of SoLR are anticipated to be minimal and will be shared across market participant fees, see chapter 8
- SoLR is designed to operate in very limited circumstances as a last resort mechanism, limiting the occasions that some costs will be incurred and ultimately recovered according to the clear direction provided by the draft rule, see chapter 7.

On this basis, the implementation processes and costs to AEMO, participants, and consumers are expected to be outweighed by the benefits of achieving the desired outcomes of providing AEMO

272 Rule 8 of the NGR.
273 Rule change request, p 71.
274 Submissions to the consultation paper: AEMO, p 2; EUAA, p 2.

with guardrails for effective use of the trading function while reinforcing governments' policy intent of being a last resort mechanism.

A The rule making process and rule change request

This appendix provides an outline of the rule making process relevant to this request as well as an overview of the rule change request.

A.1 The rule making process

The standard rule change process includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a notice and consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

More information on the rule change process is available on the AEMC website.[275]

The Commission has progressed this rule change under a timeline that is longer than standard.

On 25 September 2025, the Commission published:

- a notice advising of the initiation of the rule making process in respect of the rule change request.[276]
- a consultation paper
- a notice of extension of time for the making of the draft determination and final determination.[277] Accordingly, the time for making the:
  - draft determination was extended to 26 February 2026
  - final determination was extended to 25 June 2026.

Submissions in response to the rule change request and consultation paper closed on 30 October 2025. The Commission received 15 submissions in this first round of consultation. The Commission has considered all issues raised by stakeholders in submissions in making this draft rule determination. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

A.2 About this rule change request

This section outlines the rule change request. Further information can be obtained from the consultation paper and the request published on our project page.

The ECGS Supplier of last resort mechanism rule change request is one of four rule change requests that together seek to establish specific tools for the existing RSA framework for the ECGS. These tools would allow AEMO and market participants to better respond to reliability and supply adequacy threats.

275 See: https://www.aemc.gov.au/our-work/changing-energy-rules
276 This notice was published under section 303 of the NGL and is available to view on the project page.
277 The notice was published under section 317 of the NGL and is available to view on the project page.

The RSA stage 1 reforms in early 2023 were made in the face of impending risks of gas shortfalls forecast for winter 2023.[278]

Following the implementation of the stage 1 RSA reforms, energy ministers considered additional changes to the NGR were needed to complement the framework and make it fit for purpose to address reliability and supply adequacy risks in the short, medium and long term. In December 2023, ministers directed senior energy officials to progress a package of reforms to implement stage 2 of the RSA framework through changes to the NGR.[279]

A.2.1 The proponents' key concerns about the ECGS trading function

The proponents submitted the rule change request on 8 July 2024, proposing changes to the NGR to:

- address concerns about how AEMO uses the trading function provided in the NGL
- introduce a new supplier of last resort mechanism for the ECGS, which could include an administered demand response mechanism.

The request is intended to address concerns regarding the trading function and provide a last resort tool for AEMO to use if market participants have failed to resolve a threat to reliability and supply adequacy in the ECGS.[280]

The rule change request identifies several limitations with the current ECGS trading function, which AEMO can use to trade 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.[281]

There are five reasons why the proponents consider their preferred option — to introduce a supplier of last resort mechanism — to be the most appropriate:[282]

1. it addresses the problems identified with the current trading function arrangements in Part 27 of the NGR
2. AEMO will be better positioned to respond to any reliability and supply adequacy threats that market participants fail to address
3. it enables AEMO to use both supply and demand options
4. AEMO will not be limited in the exercise of its functions by the trading fund cap of $35 million
5. it does not mute the incentives or the ability of market participants to continue to operate and invest in the ECGS.

A.2.2 The proponents' supplier of last resort solution

Consistent with the other stage 2 RSA rule change requests, the proponents' consider the purpose of a SoLR mechanism is to address reliability and supply adequacy risk or threats in the ECGS.[283]

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 rule

278 Stage 1 reforms gave AEMO some power to address and mitigate reliability risks and threats in the ECGS such to issue directions to relevant entities or trade gas where no industry responses to reliability threats are feasible. For more details on the stage 1 reforms, see Chapter 3 of the AEMC's background paper.

279 For more details on the other rule change requests that form part of the framework, see Chapter 1 of the background paper.

280 Rule change request, pp 11-12.

281 See Chapter 2 of the consultation paper for more information.

282 Rule change request, p 28.

283 Rule change request, p 8.

change request proposes to change the NGR by removing the trading fund and introducing a SoLR mechanism.[284]

The proponents have considered a range of potential solutions to address this issue which would:

- enable AEMO, if certain preconditions are satisfied, to establish reserves through the use of storage facilities, pipelines, compressors, blend processing plants and demand response
  - The proposed preconditions require AEMO to have identified a forecast breach of the proposed gas reliability standard in the latest GSOO or PASA and communicated this breach by a risk or threat notice. (The proposal to introduce a gas reliability standard is being considered through the ECGS Enhancing reliability and supply adequacy arrangements rule change process.)
  - The proposed trigger requires AEMO to have regard to the nature and size of the forecast breach of the reliability standard and the adequacy or feasibility of the response (or likely response) from market participants at the time its assessment is undertaken.
- permit AEMO to use its reserves to respond to a threat to reliability and supply adequacy if market participants have been unable to address the threat and no longer have the ability to do so.
  - The request proposed measures to limit the risk of AEMO crowding out market participants when interacting with the facilitated markets, including using intermediaries when purchasing gas and bidding at the market price cap.
- guide how AEMO can recover costs from market participants and also distribute any proceeds that may arise, i.e., removing the $35 million cap for the trading fund and replacing it with a more transparent cost recovery and proceeds distribution mechanism
- include a system of notifications from AEMO to provide transparency to market participants
  - The proponents' proposed system of five 'action-based' notices where AEMO publishes sequential notices to communicate the escalation of SoLR mechanism actions AEMO is taking, aims to address the current uncertainty market participants face with AEMO using the trading function.
- set out reporting and accountability requirements on AEMO to build on existing accountability measures for RERT and the Dandenong LNG storage facility to propose publications and reporting requirements for AEMO.

284 Rule change request, p 8.

B Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NGL for the Commission to make this draft rule determination.

B.1 Draft rule determination and more preferable draft rule

In accordance with section 308 of the NGL, the Commission has made this draft rule determination for a more preferable draft rule in relation to the rule change request.

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NGO.[285]

The Commission's reasons for making this draft rule determination, and the more preferable draft rule, are set out in chapter 2 and the following chapters.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in this draft rule determination.

B.2 Power to make the rule

The Commission is satisfied the more preferable draft rule falls within the subject matter about which the Commission may make rules.

The more preferable draft rule falls within section 74 of the NGL as it relates to regulating:

- AEMO's declared system functions and the operation of a declared wholesale gas market
- AEMO's STTM functions and the operation of a short term trading market of an adoptive jurisdiction
- AEMO's east coast gas system reliability and supply adequacy functions
- the reliability or adequacy of the supply of covered gas within the east coast gas system.

Additionally, the more preferable draft rule falls within the matters set out in Schedule 1 to the NGL as it relates to:

- the way in which AEMO must or, without limitation, may exercise or perform its east coast gas system reliability and supply adequacy functions (item 55W)
- arrangements to enable AEMO to contract with other parties to reduce or curtail covered gas demand (item 55X)
- obligations on relevant entities to contract with each other for certain purposes and on certain terms and conditions (item 55Y)
- arrangements to procure, by or on behalf of AEMO, the supply or storage of covered gas, transport capacity and other services for the purposes of AEMO's east coast gas system reliability and supply adequacy functions, including the terms and conditions of the procurement (item 55Z)
- measures or mechanisms that must or may be implemented in response to actual or potential threats to the reliability or adequacy of the supply of covered gas within the east coast gas system (item 55ZA)

285 Section 296 of the NGL.

- arrangements to enable AEMO to, publicly or otherwise, signal or communicate actual or potential threats to the reliability or adequacy of the supply of covered gas within the east coast gas system (item 55ZC)
- the payment of fees and charges under section 91E to enable AEMO to recover costs relating to its east coast gas system reliability and supply adequacy functions (item 55ZD)
- fees payable to AEMO for services provided, or statutory functions performed, under this Law, the Rules or the Procedures (item 69).

Under section 296 of the NGL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied, having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NGO. The Commission is satisfied the more preferable draft rule would, or is likely to, better contribute to the achievement of the NGO. The Commission's reasons are set out in chapter 2.

B.3 Commission's considerations

In assessing the rule change request, the Commission considered:

- its powers under the NGL to make the draft rule
- the rule change request
- submissions received during consultation on the consultation paper
- information and other feedback from stakeholders during consultation
- the Commission's analysis as to the ways in which the draft rule will or is likely to contribute to the achievement of the NGO
- the application of the draft rule to Western Australia.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.[286]

The Commission may only make a rule that has effect with respect to an adoptive jurisdiction (relevantly, Victoria) if satisfied that the proposed rule is compatible with the proper performance of AEMO's declared system functions in that jurisdiction.[287] The more preferable draft rule is compatible with AEMO's declared system functions because it supports AEMO's functions to operate and administer the declared wholesale gas market and provide information to facilitate decisions for economically efficient investment in the covered gas industry in that adoptive jurisdiction.[288]

B.4 Making gas rules in Western Australia

Under the *National Gas Access (WA) Act 2009* (WA Gas Act), a modified version of the NGL, known as the National Gas Access (Western Australia) Law (WA Gas Law), was adopted. Under the WA Gas Law, the NGR applying in Western Australia is version 1 of the NGR, as amended by rules made by the South Australian Minister for Energy[289] and rules made by the AEMC in accordance with its rule making powers under section 74 and 313 of the WA Gas Law.[290]

286 Under s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Commonwealth, State and Territory Ministers responsible for energy.

287 Section 295(4) of the NGL.

288 Sections 91BA(1)(d) and (f) of the NGL.

289 The Statutes Amendment (National Energy Laws) (Binding Rate of Return Instrument) Act 2018 and the National Gas (South Australia (Pipelines Access—Arbitration) Amendment Act 2017.

290 See our website for further information at https://www.aemc.gov.au/regulation/energy-rules/national-gas-rules/western-australia.

The draft rule does not fall within the subject matters about which the Commission may make rules under the WA Gas Act.[291] For example, there is no express head of power for the Commission to make gas rules for or with respect to regulating AEMO's functions or conferring functions or powers on AEMO as AEMO has a limited role in the Western Australian gas market.

The draft rule amends Part 27 of the NGR which contains the east coast gas system reliability and supply adequacy provisions. The east coast gas system comprises certain facilities, markets and systems located wholly or partly within an east coast jurisdiction. An east coast jurisdiction means a participating jurisdiction other than Western Australia.[292] Consequently, Part 27 of the NGR does not apply in the WA version of the NGR. The draft rule also amends a limited number of provisions in Parts 15A, 15B, 17, 19 and 20 of the NGR, none of which apply in the WA version of the NGR. Accordingly, the draft rule would not apply in Western Australia.

B.5 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to the energy ministers that new or existing provisions of the NGR be classified as civil penalty provisions or conduct provisions.

The more preferable draft rule does not amend any rules that are currently classified as civil penalty provisions or conduct provisions under the National Gas (South Australia) Regulations. The Commission does not propose to recommend to energy ministers that any of the amendments made by the more preferable draft rule be classified as civil penalty provisions or conduct provisions.

291 None of the heads of power in the NGL noted above are contained in the WA Gas Law.

292 Section 2 of the NGL.

Abbreviations and defined terms

ADGSM	Australian Domestic Gas Supply Mechanism
AEMC	Australian Energy Market Commission
ACCC	Australian Competition and Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APC	Administered price cap
Commission	See AEMC
CPT	Cumulative price threshold
DAA	Day ahead auction
DCCEEW	Department of Climate Change, Energy, the Environment and Water (Cth)
DISR	Department of Industry, Science and Resources (Cth)
DLNG	Dandenong LNG
DWGM	Declared wholesale gas market
DWGM MPC	The market price cap in the DWGM, named VoLL in rule 200 of the NGR
ECGS	East coast gas system
ECMC	Energy and Climate Change Ministerial Council
ERSAA	ECGS Enhancing reliability and supply adequacy arrangements
GJ	Gigajoule
GPG	Gas-powered generation
GRC	Gas reliability committee
GSH	Gas supply hub
GSOO	Gas statement of opportunities
HoA	Heads of agreement
LNG	Liquefied natural gas
LT RSA	The third reform package of reforms for the RSA framework that proposes to extend AEMO's ECGS reliability and supply adequacy functions
MCE	Ministerial Council on Energy
MPC	Market price cap
NEL	National Electricity Law
NEM	National electricity market
NER	National Electricity Rules
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NOC	Notice of closure
PASA	Projected assessment of system adequacy
Proponents	The proponents of this rule change request – 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

RERT	Reliability and Emergency Reserve Trader
RRO	Retailer reliability obligation
RSA	Reliability and supply adequacy
SoLR	Supplier of last resort
STTM	Short term trading market
USG	Unserved gas
VCR	Value of customer reliability
VGCR	Value of gas customer reliability
VGPR	Victorian gas planning report
WTP	Willingness to pay