

20 April 2026

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

By online submission

Dear Ms Collyer,

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

AEMO welcomes the opportunity to respond to the AEMC's draft determination on the east coast gas system (ECGS) Supplier of Last Resort (SoLR) rule.

#### *Operational role of SoLR*

AEMO supports the policy intent of the SoLR framework. As currently drafted, AEMO does not consider that the AEMC's proposed draft framework would be relied upon in practice as an operational response tool. While intended to replace the existing ECGS trading function, the SoLR framework introduces a more complex, contract-based approach that is constrained by high activation thresholds, competitive tendering requirements and the need for early commitment to procurement and contracting arrangements. These features are not well aligned with the way gas reliability and supply adequacy risks emerge and evolve in practice, where the nature, timing and scale of the threats are often uncertain and subject to change. In addition, the positioning of SoLR as a last-resort, to be used only after other AEMO tools have been exhausted, further limits the range of credible scenarios in which it could be applied. As a result, the AEMC proposed draft framework risks adding complexity without enhancing, and potentially reducing, AEMO's ability to respond to reliability and supply adequacy risks.

AEMO sees value in the SoLR mechanism as a system resilience tool. In particular, SoLR may be more suited to supporting preparedness for low-probability, high-impact events, where early investment in capability is warranted to manage heightened system vulnerability. As the ECGS becomes increasingly reliant on a smaller number of large production facilities, storage facilities and key transmission pipelines, the system's exposure to unexpected disruptions is increasing. In this context, and consistent with views expressed in AEMO's previous submission, SoLR could play a constructive role in enabling resilience-related capabilities, particularly storage-based services, that may not otherwise be delivered through standard market responses.

If the SoLR framework is intended to support options that involve liquefied natural gas (LNG), AEMO notes that LNG does not currently fall within the definition of "covered gas" and that AEMO does not have an explicit function to trade or contract in LNG under the NGL.

The draft determination primarily frames the SoLR mechanism in terms of its interaction with facilitated gas markets. It provides limited guidance, including practical worked examples, on how SoLR is intended to apply where reliability risks arise outside of market mechanisms—for example, following major unplanned infrastructure disruptions such as the QGP incident. Greater clarity on whether and how SoLR is intended to respond to such out-of-market threats would assist operational interpretation and implementation.

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### *Establishment and activation of SoLR*

In the absence of an ECGS reliability standard under the Enhancing Reliability and Supply Adequacy Arrangements rule change, AEMO agrees that linking the establishment and activation of the SoLR mechanism to the tiered risk or threat signalling framework is a workable alternative. However, AEMO notes that the absence of an explicit reliability standard removes one of the key policy guardrails that was originally contemplated to guide the use of SoLR. In particular, a reliability standard would have provided an objective basis against which AEMO could assess whether the cost of a SoLR intervention is proportionate to the outcome or risk. Without that benchmark, AEMO will be required to make decisions based on a qualitative threat assessment rather than a defined risk-cost trade off under a standard. The tiered risk framework now performs a materially more important role in constraining when SoLR may be established and activated. This places additional importance on ensuring that the operation of the tiered risk framework, including the assessment of likelihood and severity and the determination of the *latest practicable time*, is sufficiently robust and proportionate to support these decisions.

### *SoLR service price limit*

For gas-powered generation, SoLR participation may compete with incentives to continue supplying gas into the National Electricity Market during periods of supply tightness. In such conditions, electricity market returns can exceed the value available under SoLR, meaning gas-powered generators may rationally prioritise responding to electricity market conditions rather than participate in SoLR demand response arrangements. This suggests that GPG demand response may be of limited value as a SoLR service during periods of simultaneous gas and electricity supply tightness, as cross-market opportunity costs will typically exceed the SoLR price limit. This is a constraint on resource availability for SoLR rather than an explicit issue with respect to the price limit. AEMO notes that during simultaneous gas and electricity supply tightness AEMO may need to keep gas-powered generators running (particularly if they do not have alternative fuel sources) to maintain system security.

While draft rule 699C enables AEMO to contract for a range of SoLR services, it is not clear how the SoLR service price limit is intended to apply across different service types. The draft rules should specify whether the price limit applies only to the supply of gas, or also to associated services such as haulage, compression or storage. Clarification would also assist on whether the SoLR service price limit of \$800/GJ applies on a per SoLR service contract basis, or whether it is intended to operate as an aggregate constraint across multiple SoLR service contracts established in response to the same Tier 3 threat. For example, if AEMO needs to procure services to address a 1,000 GJ shortfall, it is unclear whether the framework is intended to constrain each individual contract to an equivalent maximum value of \$800,000 (1,000 GJ \$800/GJ), or whether the \$800/GJ cap applies only at a portfolio level across all contracts used to address that shortfall.

### *Scheduling and settlement*

AEMO considers that, once the SoLR mechanism is triggered, SoLR quantities should be incorporated through existing market scheduling and clearing arrangements (i.e. through normal participant offers), rather than requiring AEMO to “inject” SoLR bids/quantities into the scheduling system. If the draft rules intend that gas sourced from a SoLR service contract is included in an operating schedule and/or pricing schedule at a price equal to VoLL, this outcome could be achieved by requiring the relevant SoLR service provider (as a market participant) to submit the SoLR quantities through the normal bidding/offer process at that price. As drafted, the proposed approach appears inconsistent with how scheduling operates in the facilitated gas markets, and it is not clear why AEMO would need to intervene directly in the scheduling system rather than rely on established market processes. Implementing the proposed approach would likely require changes to the market clearing engine, resulting in material implementation complexity and cost.

In addition, while the draft determination indicates that SoLR services may be incorporated into schedules, there is currently limited guidance on how the resulting settlement outcomes would be treated. In particular, it is unclear how market settlement outcomes interact with amounts payable under the relevant SoLR service contract, including whether the SoLR service provider is intended to retain any market revenue associated with scheduled quantities, and how this is reconciled with the contract payment. Further, it is unclear who is treated as the liable participant for imbalance and deviation/non-conformance outcomes if actual delivery differs from the scheduled quantity. Clarification is also required on how any imbalances arising from under-delivery or over-delivery of scheduled SoLR quantities would be settled and allocated, and how non-conformance outcomes would apply.

Relatedly, the draft rules would require AEMO to determine regions that are used, among other things, for the allocation of AEMO SoLR costs and proceeds. Further clarity would assist on how this regional allocation framework is intended to interact with compensation and cost recovery arrangements associated with ECGS directions, to avoid duplication or inconsistent allocation outcomes across intervention tools. AEMO also notes, based on lessons learnt from the QGP incident, that effective regional classification may need to be defined at the level of specific assets or interconnected systems (rather than broad geographic regions), depending on the nature of the threat and the affected part of the network.

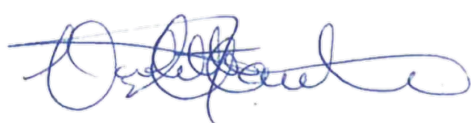
#### *Administered demand response*

Administered demand response under SoLR would require AEMO to establish and maintain a standing procurement, baselining/verification, and settlement framework for events expected to occur infrequently. In AEMO's view, the following should be considered:

- Demand response is inherently difficult to implement and verify in gas, given baselining challenges, metering coverage and data quality limitations, and the lack of near real-time visibility of delivered reductions.
- The practical pool of deliverable providers is likely to be small, concentrated in a limited number of large industrial users with the operational capability to support verifiable gas demand response. The effectiveness of these providers may be further constrained by the inherently locational and time-dependent nature of gas supply, and may be further constrained by competing incentives (including for gas-powered generation exposed to NEM conditions).
- If the AEMC proceeds, AEMO recommends a staged implementation approach starting with an initial register of potentially available providers and only progressing to a standing panel/contracting framework if there is evidence the service is viable, deliverable and likely to be utilised.

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

Yours sincerely,



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