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ECGS Supplier of Last Resort Mechanism – Draft Determination February 2026

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to provide feedback on the draft determination. We recognise the policy intent behind the proposed supplier of last resort (SoLR) mechanism. However, we have reservations about whether the framework as drafted will achieve its stated objectives and consider that several design issues require resolution before the rule is finalised. The effectiveness of this framework will depend on how it is operationalised predictably, proportionately and transparently.

Existing mechanisms and expected SoLR place in the hierarchy

The East Coast Gas System (ECGS) already has a substantial toolkit for managing reliability threats. These mechanisms set the baseline against which AEMO's obligation under rule 699H: to consider whether its other functions are available before SoLR tendering, must be assessed. The existing mechanisms includes:

- *Gas Bulletin Board (GBB)*: Provides real-time transparency on supply, demand and facility status, enabling early identification of emerging imbalances by participants and AEMO alike.
- *Gas Supply Adequacy and Reliability Conference (GSARC)*: AEMO may convene a GSARC to assess an identified or potential threat, obtain information from participants, and signal the need for a market-led response. This is the primary established mechanism for eliciting commercial responses.
- *AEMO directions function*: A tested power, most recently exercised in the 2024 Queensland Gas Pipeline event, and the appropriate instrument for acute operational emergencies.
- *AEMO tiered risk and threat notices*: Escalating tier notices under the ERSAA framework provide structured market signals and time for participants to respond before intervention.

- *ACCC Gas Market Code*: Requires producers to offer uncontracted gas to the domestic market at reasonable prices, a direct supply-side tool for structural supply gaps.
- *Australian Domestic Gas Security Mechanism (ADGSM)*: The Commonwealth's mechanism to restrict LNG exports where the domestic market is at risk of shortfall.
- *LNG Heads of Agreement*: Voluntary commitments by Queensland LNG producers to prioritise domestic supply in periods of tightness.

More broadly, the recent use of ACCC interim authorisation in the fuel supply context¹ is a timely reminder that other existing frameworks, including those outside AEMO's direct remit, can facilitate rapid, coordinated market responses to acute supply threats.

The draft rule does not articulate the relationship between the GSARC process and SoLR activation. The final determination should confirm that AEMO is expected to convene a GSARC and allow a market response to develop before proceeding to tender, except where the urgency of the threat makes this impractical.

Supply additionality and operational role

The draft rule does not impose an explicit additionality requirement on supply-side SoLR services, despite the mechanism's intention to deliver additional supply to the ECGS.

As a result, SoLR contracting may draw on uncontracted gas, pipeline capacity or storage that is already physically available but not committed through commercial arrangements. This has material implications for near-term reliability where a threat reflects an acute shortfall rather than a forecast structural gap, and for how it interacts with investment incentives over time. Without clarity on its intended time horizon and operational scope, the SoLR risks being perceived, and used, as a substitute for emergency response or long-term investment facilitation. Neither is its intended role.

The absence of a supply-side additionality requirement also interacts with contracting incentives. Where intervention costs are socialised through demand-based recovery, but individual participants remain exposed to VoLL-based pricing outcomes during scarcity, there is a risk that incentives for prudent self-supply could be weakened if the role and limits of SoLR are not clearly defined.

The AEMC should provide clarity in the final determination on the scenarios for which the SoLR is designed and explicitly distinguish it from AEMO's directions function. The SoLR Procedures should include assessment criteria that weight demand response and incremental supply ahead of contracting over existing residual market capacity.

Adequate industry response

The concept of "*adequate industry response*" is the key pre-condition for AEMO proceeding to tender and activate SoLR contracts. It is the primary safeguard that ensures market-led solutions are exhausted and protects against any moral hazard.

The draft determination appropriately emphasises that SoLR is to be used only after the market has been given a genuine opportunity to respond. However, while the rules establish *when* AEMO may progress to tendering and potential activation, there is limited

¹ Media release: ACCC Authorises fuel majors to coordinate to ensure fuel supplies with conditions, 20 March 2026.

guidance on *what* the market must do, in practical terms. In our view, as currently drafted, the rules describe an outcome rather than the conditions, actions and timeframes that constitute a sufficient response. Delegating this design to the Procedures is not a desirable outcome of the rule because emergency arrangements should be well designed and transparent in the Rules to enable a robust, timely and efficient industry response, clarifying market roles and expectations.

We recommend the final rule:

- Give substantive content to “*adequate industry response*” in rule 680, including the types of actions and timeframes that constitute a sufficient market response.
- Specify a minimum period between the rule 696A(1) notice and AEMO commencing a tender.
- Confirm in the final determination that AEMO is expected to utilise the GSARC process before concluding that the market response has been inadequate.

As currently drafted, the rules allow AEMO to decline a relinquishment request where relinquishment “*may*” prejudice its ability to address a tier 3 thread. This standard should be tightened so that grounds for refusal are specific and demonstrable, with written reasons required.

Cost recovery

EnergyAustralia has proposed different cost recovery methods. However, noting the AEMC has recommended a demand-based cost recovery methodology as the most practical option, we draw attention to two issues for consideration.

First, the interaction between SoLR contract duration and the cost recovery period requires clarification. Where AEMO establishes long-term SOLR service contracts well in advance of a forecast shortfall, for example, from 2027 for a 2029 event, cost recovery could operate over a multi-year window, socialising costs across all relevant entities for an extended period. This risks the SoLR functioning as a long-term capacity reservation mechanism that displaces commercial contracting, with costs socialised regardless of whether the mechanism is ever activated. The final rule should include a requirement in rules 699I or 699D that AEMO seek contracts of the shortest duration consistent with adequately addressing the relevant tier 3 threat and clarify how the cost recovery period interacts with contract duration.

Second, The Procedures under rule 709 are expected to carry significant operational weight, and the NGR currently provides limited direction on how they should align costs with behaviour. We recommend a post-implementation review of the cost recovery framework no later than 18 months after first activation, with defined criteria and scope to refine the Procedures in response.

Contract expectations

The tender-based, forward-looking nature of the SoLR mechanism raises important questions about timing and transparency. We suggest it would be helpful for the AEMC to encourage AEMO to clearly communicate, as part of any tender process, the expected lead times, duration and risk profile of the services sought. This would support more targeted and efficient offers, reduce uncertainty for participants, and reinforce the role of SoLR as a complement to, rather than a substitute for, prudent contracting and

investment decisions. For SoLR to reinforce rather than undermine investment signals, tender results (prices, volumes, duration, winning parties) should be published.

We suggest that the rules should explicitly articulate the importance of preserving commercial contracting incentives as a SoLR principle. This would strengthen guidance to AEMO and market participants.

Application and implementation in the DWGM and STTM markets

The draft rule requires AEMO to develop gas scheduling procedures governing SoLR injections in the DWGM, including mechanisms to ensure VoLL-only scheduling. At the same time, the circumstances in which AEMO may rely on the “*other means*” pathway outside the pricing schedule remain largely unspecified. Given the potential for this pathway to affect normal pricing and scheduling arrangements, these conditions should be specified in the rule, not deferred to Procedures.

The draft determination recognises that STTM Procedures developed under rule 450A will have direct settlement and financial impacts on participants. The cumulative procedural development burden of concurrent RSA reforms: ERSAA, ECGS PASA, and the SOLR Procedures under rule 699D, is significant. Each workstream requires substantive consultation, system changes and commercial adaptation on a compressed timeline before the 1 April 2027 commencement date. We therefore encourage the AEMC to consider the interaction of these reforms and whether an extended timeline is required.

Periodic review mechanism

The SoLR addresses a specific and conditional market failure. However, once implemented, the framework and the obligations it imposes on participants continue indefinitely, with no mechanism to test whether it continues to serve its policy intent. EnergyAustralia recommends the final rule include a mandatory periodic review no later than five years after commencement and every three years thereafter conducted by the Gas Reliability Committee under ERSAA. The review should assess, at minimum, whether the mechanism has been activated, whether existing tools could have addressed the threats that arose, and whether the cost recovery approach has supported prudent contracting behaviour. Where the review identifies that the mechanism is not operating as intended, the AEMC should be required to consider appropriate modifications.

The suggestions in our submission are intended to reinforce the market-led character of the framework, reduce implementation and procedural risk, strengthen predictability and confidence for participants, and ensure the mechanism operates proportionately and as a genuine last resort mechanism.

If you would like to discuss this submission, please contact me via email at Ana.Spataru@energyaustralia.com.au.

Regards,

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