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Our Reference: APLNG - COR - 1054756

Project Leader (GRC0077)
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

By electronic lodgement: www.aemc.gov.au/contact-us/lodge-submission

Dear

Australia Pacific LNG Pty Limited (APLNG) welcomes the opportunity to contribute to the Australian Energy Market Commission's (AEMC) consultation process on the *National Gas Amendment (ECGS Supplier of Last Resort) Rule 2026* draft rule determination.

APLNG maintains our previous position¹ that interventionist measures, such as Australian Energy Market Operator's (AEMO) trading powers as operationalised through the proposed Supplier of Last Resort (SoLR) mechanism, weaken incentives for market participants to manage risk effectively through prudent contracting and encourage greater reliance on regulatory intervention.

Additionally, we have concerns about the practical effectiveness of the SoLR mechanism. The AEMC has indicated that AEMO could source uncontracted gas and contracted gas from participants holding non-firm contracts. However, uncontracted gas is likely to be scarce due to already tight supply-demand conditions, particularly during peak periods or system-wide events. Even where incremental supply is available, constraints on transportation and/or storage may prevent delivery to the affected locations within the required timeframes. As a result, the SoLR mechanism is unlikely to materially reduce the underlying risk or threat.

In our view, policy efforts are better directed towards measures that support timely investment in new gas supply and infrastructure. This includes implementing relevant Gas Market Review recommendations and other complementary reforms relating to exploration and production approvals, environmental and safety regulation, and carbon abatement policy. Targeted action in these areas would strengthen the east coast gas system (ECGS) and materially reduce, if not eliminate, the need for interventionist measures.

We also remain unconvinced that the adoption of a demand-based cost recovery and proceeds distribution methodology is in the long-term interest of gas consumers. This approach socialises the costs of intervention across a broad group of gas users, including those that have adopted prudent risk management strategies and those who do not benefit from the intervention, such as LNG export customers. It does not support allocative efficiency and undermines incentives for efficient contracting behaviour. Rather, APLNG would prefer an equitable causer-pays approach to cost recovery.

While APLNG opposes the introduction of the proposed SoLR mechanism, we recognise that the AEMC has formed a draft position to proceed with this reform. With this in mind, and without altering

¹ Refer to APLNG's October 2025 submission at www.aemc.gov.au/sites/default/files/2025-11/7%20APLNG.pdf.

our position, the remainder of this submission addresses key design and implementation issues critical to minimising unintended consequences. Specific drafting concerns are detailed in **Attachment 1**.

Trigger

APLNG agrees a clear and objective trigger is required for the SoLR mechanism to provide market participants with transparency and certainty around its potential utilisation. The Draft Rule proposes explicitly linking AEMO's use of the SoLR mechanism to the incoming ECGS threat-signalling protocol, with AEMO only permitted to commence tendering for SoLR services once a system risk exceeds a 'Tier 3 Threat' level. Subject to the protocol's yet-to-be-designed key details, APLNG's initial view is that a Tier 3 Threat level could be a suitable trigger for the SoLR mechanism. This is because a Tier 3 classification should correspond to the most severe system threats / risks, and it is only in such extreme circumstances that the use of the SoLR mechanism should be contemplated (on the condition that market response is insufficient). The Draft Rule does not obligate AEMO to establish SoLR reserves every time a Tier 3 Threat is declared, and APLNG considers that providing AEMO with this level of discretion is appropriate.

However, APLNG's support for the proposed threat-signalling protocol acting as the SoLR mechanism trigger is contingent on the protocol being amended to only apply to operational timeframes, rather than the proposed 12 months. This is a critical change, necessary to reduce the risk of premature threat declarations and ill-timed AEMO interventions.

Proposed commencement date

APLNG does not support the proposed 1 April 2027 commencement date for the SoLR mechanism, as it is not feasible having regard to the scale, complexity and sequencing of concurrent reform processes. In our submission on the *Enhancing reliability and supply adequacy arrangements* (ERSAA) draft rule determination, we recommended deferring the commencement of the tiered risk or threat signalling framework by at least two months, to allow those reforms to be implemented following the commencement of the projected assessment of system adequacy reports.

Given that the SoLR mechanism is directly dependent on the tiered risk or threat signalling framework, its commencement should likewise be deferred to align with the revised ERSAA timelines. A short postponement of the SoLR framework will not materially affect ECGS reliability or supply adequacy outcomes, as AEMO would continue to have access to the existing trading fund to manage emerging risks or threats if required.

SoLR service price limit

While APLNG could support the inclusion of a SoLR service price limit, we do not support setting the SoLR service price limit at the Declared Wholesale Gas Market (DWGM) market price cap (i.e. the Value of Lost Load (VoLL) of \$800/GJ).

APLNG considers that setting the SoLR service price limit at \$800/GJ is likely to operate as a price anchor rather than a cap. In a shortfall or supply-constrained event where a SoLR will be triggered, participants may bid at or near the known maximum allowable price, especially where there is limited competition. This risks normalising prices at or near VoLL, rather than simply providing a backstop ceiling. As a result, AEMO could face systematically elevated procurement costs, even in circumstances where lower-cost supply options may exist.

More fundamentally, APLNG does not believe that the VoLL is designed to function as a contracting benchmark. Within the DWGM framework, the VoLL is a scarcity pricing parameter for spot market outcomes, calibrated to allow efficient price formation during extreme supply-demand imbalances. Its high price benchmark reflects its interaction with other mechanisms such as the cumulative price threshold and administered pricing arrangements, which act to limit the duration and financial impact of extreme prices. Removing the VoLL from this broader framework and repurposing it as a bilateral or administered procurement cap risks unintended and inefficient outcomes.

APLNG considers that given the AEMC's proposed cost-recovery approach, a high SoLR procurement price, particularly one anchored at the VoLL, would result in inequitable outcomes. The AEMC has proposed that SoLR costs would be spread across gas users under the proposed gross demand cost-allocation model, regardless of their individual contribution to the triggering event. Users

who have prudently contracted sufficient gas supply to meet their needs would nonetheless be exposed to the costs of extreme SoLR procurement, which is particularly problematic for appropriately hedged smaller gas users, who are unlikely to be able to wear such high prices. The result is a cross-subsidy that weakens incentives for prudent contracting while imposing disproportionate cost burdens on parties least able to manage them.

APLNG considers the SoLR services proposed are closer in nature to contracted or directed supply arrangements, rather than spot market transactions. A more appropriate approach would be to set the price limit with reference to observable contract market benchmarks, cost-reflective supply curves, or other measures determined by the proposed Gas Reliability Committee.

APLNG would support the SoLR service price limit being determined as a market setting, but we are concerned that under the draft rules there will be lengthy delays until such price limit came into effect. APLNG understands that the VoLL would apply until the market settings instrument came into effect, which would be undesirable.

In addition, APLNG questions whether the SoLR service price limit should be published, given the anchoring risks. Rather, consultation and transparency could focus on the inputs and methodology in setting the price limit.

Competitive tender process

APLNG supports requiring AEMO to use competitive tendering to seek out potential demand and supply responses. APLNG considers a competitive tender process is preferable to the standing demand response panel that was proposed in the original rule change request, as it will be more effective and provide better value for money, but most importantly, it means AEMO will not participate directly in facilitated gas markets, limiting the risk of market distortions.

Ultimately, the effectiveness of the SoLR competitive tender process will depend on the SoLR Procedures to be made by AEMO. APLNG considers the following features could help incentivise participation in the tender process:

- Preserving the anonymity of the tenderers, whether successful or not—for commercial reasons, a market participant may not wish its willingness to offer specific SoLR services to be known.
- Compensation for termination—any SoLR service contract will be negotiated and entered into in good faith, in accordance with the Gas Market Code. Should AEMO terminate a SoLR service contract because it determines the contract is no longer required to address a threat, the AEMO SoLR Procedures should allow for compensation to be sought.

Availability payment for demand response providers

While APLNG could support the inclusion of demand-side responses in the SoLR mechanism, we do not support the introduction of an availability payment.

In its draft rule determination, the AEMC has suggested that offering an availability payment to demand response providers would incentivise large gas users to invest in demand-side flexibility. However, under the current proposal, such payments would only be made when the SoLR mechanism is triggered—an event that is expected to occur infrequently and in specific locations—and only where the demand response provider is successful in securing a SoLR service contract.

In these circumstances, availability payments are unlikely to provide the level of revenue certainty needed to support forward-looking investment decisions. Large gas users would typically require predictable and ongoing income streams to justify capital expenditure or material operational changes.

APLNG therefore considers that availability payments would be ineffective in promoting demand-side investment, impose unnecessary costs on gas users, and should not be permitted to be made by AEMO under the NGR.

Transparency measures

APLNG supports the AEMC's proposal to introduce the initial and detailed post-SoLR activation reports, the integration of SoLR notices into the tiered risk or threat signalling framework, and the requirement for AEMO to establish separate financial accounts for the SoLR function. These measures will improve transparency, accountability and stakeholder confidence in the operation of the SoLR mechanism, while ensuring that SoLR-related costs and proceeds are clearly identifiable and appropriately segregated from AEMO's other functions.

Consistent with our previous submission, we also agree with the AEMC's draft decision not to proceed with biannual reporting requirements. These reports will not provide additional insight and would impose unnecessary administrative burden on AEMO.

Thank you for the opportunity to provide feedback on the draft rule determination. Should you have any queries relating to this submission, please contact Kieran Olsen, Compliance Manager, on 07 3021 3347 or via email at kieran.olsen@aplng.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Game', written over a horizontal line.

Simon Game

General Manager Commercial
Australia Pacific LNG Pty Limited

Attachment 1: APLNG feedback on the draft rules

Reference	Draft rule	APLNG feedback
680	direction function means a function specified in section 91AD(1)(e) or (f) of the <i>NGL</i> .	APLNG recommends that the definition of 'direction function' should reference only section 91AD(1)(e) of the National Gas Law (NGL) and not paragraph 91AD(1)(f). (Noting this is not captured on p. 82 of the draft rule mark up , but is characterised correctly on p. 8 of the draft amending rule , item [18].)
	SoLR Procedures means Procedures governing the tenders for, establishment, activation, relinquishment and termination of SoLR service contracts, and the initial and detailed post-SoLR activation reports, to be made by AEMO under rule 699D(1) and other rules in this Part where specified.	This proposed definition for SoLR Procedures should expressly specify that it intends to address cost recovery and proceeds distribution.
	supply shortfall – see rule 694B(7).	Should be defined here if used throughout Part 27.

Reference	Draft rule	APLNG feedback
699A(3)(b)	<p>(b) SoLR service price limit means:</p> <ul style="list-style-type: none"> i. the VoLL, as defined in rule 200; or ii. if a different SoLR service price limit is determined and published by the AEMC as a market setting under rule 140J, that figure. 	<p>The draft rule refers to the SoLR service price limit as either the VoLL or a market setting determined by the AEMC to apply on and from 1 July in the year commencing 2 years after the year in which the final report by the Gas Reliability Committee is published.</p> <p>APLNG considers that the VoLL is not appropriate as a service price limit, and that this figure is more appropriately determined as a separate and distinct market setting for a SoLR purpose, through meaningful stakeholder consultation.</p> <p>APLNG is concerned with the following in the current draft rules:</p> <ol style="list-style-type: none"> 1) the timing of the implementation of the SoLR does not allow for the adoption of a fit-for-purpose market setting to be determined by the AEMC and adopted as the SoLR service price limit. Where the SoLR is due to commence in April 2027, and the fit-for-purpose market setting to be determined and applied 2 years from the year in which the final report by the Gas Reliability Committee is published (also likely 2027), it appears that there is at least a period of 2 years in which it is not clear to APLNG which figure will be used for the SoLR service price limit. APLNG considers that the AEMC should look to either: <ul style="list-style-type: none"> a. delay the implementation of the SoLR, b. provide for an alternative interim SoLR-specific market setting in the Procedures, or c. consider setting out the methodology for determining a cap instead of publishing a specific price limit. 2) APLNG considers there should be express timeframes requiring the Gas Reliability Committee to periodically review the SoLR service price limit to ensure it remains fit for purpose.

Reference	Draft rule	APLNG feedback
681B(1)(d)	<p>(1) AEMO must determine, and may review and amend, regions within the east coast gas system, that may be used:</p> <ol style="list-style-type: none"> a. to support information collection, analysis and reporting for the purposes of AEMO's functions under section 91AD of the NGL; b. for the assessment, classification and communication of identified risks and threats; and c. for the PASA under Division 2.; and d. for the allocation of AEMO SoLR costs and AEMO SoLR proceeds under Division 7. <p>(2) AEMO may determine different regions for different purposes.</p> <p>(3) In determining regions, AEMO may use any criteria it considers appropriate to define regional boundaries or to otherwise allocate covered gas industry facilities or demand to regions.</p> <p>(4) AEMO must set out in the Procedures the regions identified by AEMO and an explanation of the methodology AEMO uses to determine regions.</p>	<p>As noted in our submission to the <i>Enhancing RSA Arrangements</i> draft determination paper submitted on the 9 April 2026, APLNG considers that proposed rule 681B should include two new rules requiring AEMO to:</p> <ul style="list-style-type: none"> • consult on the criteria and methodology for defining regions, as well as the proposed regions • protect confidential information when determining the regions. <p>In addition to these matters, the ECGS Procedures should also set out the criteria AEMO uses to define regional boundaries or otherwise allocate covered gas industry facilities or demand to regions which should be then adopted as the regions for the purposes of allocating SoLR costs and proceeds under Division 7.</p>
699G(d)	<p>The tender process rules AEMO develops for a competitive tender process must: [...]</p> <p>(d) require bidders to provide information relating to potential or proposed services provided to other persons and the extent to which this may adversely affect or reduce bidders' capacity or entitlement to provide services to AEMO under a SoLR service contract, including information about the services provided to those other persons, that is relevant to the evaluation of tenders by AEMO; and</p>	<p>APLNG considers that the inclusion of such a clause is unnecessary and may work to deter bidders from providing services where further clarity is not provided around the classes of information AEMO may seek.</p> <p>Within standard contract negotiations, the issues contemplated by this provision are assessed and managed on the side of the bidder. Where a bidder is actively negotiating with a third party or other persons, those services would not then also be made available to AEMO as part of the SoLR tendering process as part of good faith negotiations.</p>

Reference	Draft rule	APLNG feedback
699I(1)(b)	<p>(b) use all reasonable endeavours to enter into the SoLR service contracts with the SoLR service suppliers on terms and conditions which:</p> <ul style="list-style-type: none"> i. are sufficient to address the magnitude, timing and duration of the tier 3 threat specified in the notice; ii. are consistent with the SoLR principles; and iii. allow AEMO to comply with relinquishment and termination obligations under rules 699K and 699L 	<p>APLNG considers that given the significant risk of market distortion and high costs associated to all relevant gas users where a SoLR is activated, AEMO should be required to use 'best endeavours' when entering SoLR service contracts, not 'all reasonable endeavours'.</p>
708(1)	<p>Supplier of Last Resort cost recovery and proceeds distribution (1) AEMO must: (a) recover from relevant entities AEMO SoLR costs; and (b) distribute to relevant entities AEMO SoLR proceeds, in connection with AEMO's actions as the Supplier of Last Resort, in accordance with this rule and Procedures made by AEMO under rule 708A.</p>	<p>Reference to rule 708A should be a reference to (substituted) rule 709.</p>