

Rule determination

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

Proponents

Energy Senior Officials
Victorian Minister for Energy and Resources

Enquiries

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.



Copyright

This work is copyright. The Copyright Act 1968 (Cth) permits fair dealing for study, research, news reporting, criticism and review. You may reproduce selected passages, tables or diagrams for these purposes provided you acknowledge the source.

Citation

To cite this document, please use the following:

AEMC, ECGS Supplier of last resort mechanism, Rule determination, 25 June 2026

Summary

- 1 A reliable east coast gas system (ECGS) will continue to be 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), along with batteries, help 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 as GPG winter peaks become greater than those in summer. 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. This makes gas infrastructure investment critical to cater for the volatility in demand.²
- 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. The proposed domestic gas reservation scheme will support a more reliable gas supply when fully operational. Nevertheless, as the scheme is likely to have a greater impact on annual or structural supply adequacy, there may remain some risk that supply may not always meet peak demand needs. This is where the supplier of last resort (SoLR) mechanism can support alleviating reliability threats. This balancing of structural and peak day reliability risks into the future, while the overall energy sector is transforming, is the challenging context in which this rule change request has been considered.

The final rule implements the SoLR mechanism

- 5 The Australian Energy Market Commission (AEMC or Commission) has made a more preferable final rule (final rule) that introduces a SoLR mechanism into the National Gas Rules (NGR). This mechanism will be available 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) can 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 in 2023.
- 6 The final 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 proponents). It provides 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 final rule is part of a set of four rule changes that together form the stage 2 RSA reforms.
- 7 The Commission's final rule provides greater clarity and certainty for AEMO, industry participants, jurisdictions, and consumers on how AEMO would use its ECGS trading function. It includes a comprehensive set of arrangements in the form of the SoLR mechanism to address threats to gas reliability. The final rule specifies: the respective roles of industry participants and AEMO; how this

1 AEMO, 2026 Gas statement of opportunities, p 6.

2 AEMO, 2026 Gas statement of opportunities, pp 6-7.

function would operate in practice; that the SoLR mechanism sits towards the end in the hierarchy of tools available to AEMO; and information transparency and accountability arrangements.

- 8 The Commission considers the final rule will promote the efficient operation of the ECGS and is in the long term interests of consumers because it will result in improved reliability outcomes for consumers by providing greater guidance and guardrails on AEMO’s use of its ECGS trading function. The final rule also promotes greater market efficiency by clarifying that industry participants are primarily responsible for managing gas reliability risks and if the function is to be used, how it is to be used. It also minimises market distortions that may arise from the presence and potential use of the SoLR mechanism. The final 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 final rule will contribute to the achievement of the national gas objective (NGO).
- 9 In making this final rule, the Commission emphasises that the SoLR mechanism is intended to operate as a genuine measure of last resort and is expected to be used only rarely, if at all. The expectation is that gas reliability and supply adequacy risks and threats will continue to be managed primarily through normal market responses, supported by AEMO’s existing functions. The purpose of the SoLR mechanism is therefore not to increase the likelihood of market intervention, but to provide clarity, certainty and appropriate regulatory guidance regarding how reliability threats would be addressed in the unlikely event that industry participants have exhausted all existing market-based mechanisms and reliability threats persist. In this way, the SoLR mechanism serves as a safeguard within the broader reliability and supply adequacy framework, rather than a routine operational tool. This is consistent with the objective of energy ministers and views of industry participants.

Key features of the SoLR final rule

- 10 The final rule creates a SoLR mechanism for use to address threats to reliability and supply adequacy in the ECGS. In making the final rule, the Commission has been informed by stakeholder submissions to the consultation paper and draft determination. Continuous engagement with industry participants and AEMO has also been critical to refining the draft rule into the final form of the SoLR mechanism. The key features of the final rule are that it:
- Enables AEMO to procure supply-side and demand-side services to address threats to gas reliability and supply adequacy in the ECGS. (see chapter 3)
 - Requires AEMO to use competitive tendering to seek out potential demand and supply responses to identified reliability threats. (see chapter 6)
 - Using a tendering process aims to provide AEMO with as many options to address an identified reliability threat as possible. It should also enable AEMO to select the most cost-effective responses.
 - As a result, SoLR service contracts established through a competitive tender process are the means for AEMO to address threats to reliability, preventing the need for AEMO to directly intervene in the facilitated markets. This feature addresses the significant stakeholder concerns regarding AEMO participating in markets that it operates.
 - Includes other key design features to guide AEMO and industry participants on its use (see chapter 3). These are:
 - Principles AEMO must have regard to when establishing a SoLR service contract and activating, or using, a SoLR service contract

- AEMO is able to enter into contracts with one or more persons for specific services (in accordance with its procedures)
- SoLR can be used by AEMO across the ECGS at any time of the year
- It does not amend the Dandenong LNG storage facility interim arrangements in place in Victoria.
- Provides AEMO with a dual cost constraint for its expenditure on SoLR service contracts (escalated by CPI over time). (see chapter 4)
 - This cost constraint is to guide AEMO on its expenditure that is ultimately recovered from gas users through the SoLR cost recovery mechanism. In addition to managing the cost impact of the SoLR mechanism, the constraint levels have been set to mitigate potential market distortions that may arise from it. Specifically, AEMO is guided by:
 - an upper cost limit of \$40/GJ for the negotiation of each SoLR service contract
 - a total annual expenditure limit on SoLR service contracts of \$50 million.
- Establishes clear preconditions and triggers for the SoLR mechanism. (see chapter 5)
 - Leveraging the improved demand-supply outlook information from the ECGS Projected assessment of system adequacy (PASA) final rule, AEMO will be able to inform industry participants of risks and threats to reliability through the tiered signalling framework created by the ECGS Enhancing reliability and supply adequacy arrangements (ERSAA) final rule. This tiered signalling framework is a gateway into AEMO using the SoLR mechanism.
 - 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 appear 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. This reinforces the importance of providing industry participants with every possibility to respond to reliability threats.
 - 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 ERSAA final rule. It also allows a gas reliability and supply adequacy conference to be used.
- Sets out how the SoLR mechanism operates once a tier 3 threat has been identified and communicated under the tiered risk or threat signalling framework (see chapter 6). The final rule:
 - requires AEMO to use assessment criteria when determining whether and how to respond to a tier 3 threat, including when evaluating tenders and when deciding whether to activate a SoLR contract
 - requires AEMO to consider other tools available to it before commencing the tender process and again before activating any SoLR contract
 - limits AEMO's procurement of SoLR services to a competitive tender process and does not allow AEMO to buy or sell gas directly in the facilitated markets for SoLR purposes
 - maintains the relinquishment mechanism that enables relevant entities to request AEMO to relinquish services, rights or entitlements available under a SoLR service contract, with certain exceptions.

- Implements a demand-based cost recovery and proceeds distribution process that supports efficient market outcomes without imposing undue complexities and costs (see chapter 7).
The final rule:
 - replaces the ex ante trading fund (which was set at a cap \$35 million (in June 2022 dollars)) with a 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 over the period between the date of publishing the latest practicable time for an adequate industry response notice and the publication of a variation or revocation notice that outlines that AEMO has ceased a SoLR intervention
 - specifies AEMO settlement (for both cost recovery and proceeds distribution) will occur on a monthly rolling basis until the SoLR service ceases to be used
 - requires AEMO to include additional details regarding the process of the cost recovery and proceeds distribution methodology in procedures and guidelines.
- Enhances transparency and accountability to industry participants. (see chapter 8)
 - The final rule builds on current arrangements to provide additional transparency to industry participants on AEMO's actions throughout the whole process of using the SoLR mechanism.
 - The final rule includes improved accountability requirements on AEMO so that it must publicly report at intervals of one and four months after SoLR has been used. This is in addition to its existing requirement to report to energy ministers annually on its ECGS functions.
 - The final rule includes a new requirement that AEMO must conclude a review into the operation of the SoLR mechanism 18 months after its first use. This review is to include public consultation.
 - AEMO must also maintain separate financial accounts relating to its SoLR functions.

How we made the final rule

- 11 The Commission has considered the NGO and the issues raised in the rule change request and has assessed the final rule against three assessment criteria outlined below. We gathered and analysed stakeholder feedback on the draft determination 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 the first and primary responders to address threats to reliability and supply adequacy in the ECGS. As a result, SoLR has been established to provide an important supporting role to industry as needed, minimising market distortions.
- 13 While the intent of the rule change request was supported by many industry participants, the Commission acknowledges the fundamental concern many hold regarding the NGL's trading function and the possible market interventions that could arise from it. However, establishing a

framework (the SoLR mechanism) for how AEMO may use its trading function addresses industry participants' concerns and aligns with the proponents' request.

- 14 However, even with this common purpose, the rule change process has required assessment of complex issues and involved challenging decision-making. For example:
- whether establishing the SoLR mechanism in the NGR would, by its existence, inadvertently increase the likelihood that it is used by AEMO and the ECGS experiences more market interventions than it may have otherwise
 - how, and to what extent, should the Commission reflect the proponents' aim for the mechanism to be a last resort mechanism compared to creating a mechanism that could be more readily accessible or a mechanism (for example) that enables AEMO to hold gas in storage for an extended time
 - using a balance of rules and procedures that provides sufficient guidance for using the trading function that is workable but not overly complex, in light of the objective that the SoLR mechanism is 'last resort' in nature and should be rarely used
 - determining how to enable gas to be brought into the ECGS as a last resort before directions powers are needed, by finding a balance between empowering industry participants and enabling AEMO to act itself, including by participating in the facilitated markets it operates
 - balancing incentives for industry participants to offer SoLR services to AEMO through a sufficient financial reward, with concerns about the possible market distortions that could arise and the possible cost impact SoLR could have on gas and electricity users when setting the SoLR contract price limit.
- 15 On balance, the Commission has decided to make a final rule to achieve the goal of guiding AEMO's use of its trading function under the NGL and clarifying that it fills a specific role within the broader RSA framework for the ECGS. As noted below, the Commission is satisfied that the final rule will contribute to the achievement of the NGO.

The final rule contributes to achieving the national gas objective

- 16 The final rule contributes to achieving the national gas objective by:
- 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 final rule provides clarity and certainty on the respective roles between industry participants 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 for addressing 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. Clarity on how SoLR could be used also provides certainty to the operation of the ECGS.
 - 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 reliability and supply adequacy in the ECGS.
- 17 These design features of the final rule are more preferable to those outlined in the rule change request as they introduce additional guidance and guardrails that set clear boundaries around AEMO's use of this mechanism, which reinforces the last resort nature of the trading function. The

final rule links the establishment and activation of the SoLR mechanism clearly to the tiered risk or threat signalling function in the ERSAA final 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. The rule also replaces the trading fund with a dual cost constraint that limits the amount AEMO can contract and expend on SoLR services. This approach provides clear scope on contract costs. The operation of SoLR is also designed to minimise market distortions through AEMO procuring SoLR services through a competitive tendering process.

Key differences between the draft and final rules

- 18 The Commission has made some changes to parts of the draft rule SoLR mechanism in making its final rule. Briefly, these changes include:
- Key design features of the SoLR mechanism: Clarifying that AEMO is able to enter into a contract for ‘services provided by a storage provider’ instead of ‘storage of covered gas’. (see chapter 3)
 - Cost constraint: Replacing the draft rule price guide with a dual cost constraint to guide AEMO’s SoLR contract expenditure. (see chapter 4)
 - Preconditions and trigger for the SoLR mechanism: The final rule includes an additional precondition that AEMO may convene a reliability and supply adequacy conference for the purpose of assessing whether to commence preparatory steps for SoLR. (see chapter 5)
 - Operating SoLR: Changes to the method for providing gas under a SoLR contract into the facilitated markets, and the requirement for AEMO to put certain information in procedures. (see chapter 6)
 - Demand-based cost-recovery and proceeds distribution approach: clarifies that costs are proportionately allocated based on each gas industry participant’s (gross) demand for covered gas in the location(s) and at the time of which the tier 3 threat relates. (see chapter 7)
 - Transparency and accountability: The final rule requires the post-intervention reports to be published on AEMO’s website. In addition, AEMO is also required to conclude a review of the SoLR procedures, guidelines, and relevant tender processes within 18 months of first activating SoLR. (see chapter 8)

Implementation of the SoLR mechanism

- 19 The final rule details transitional arrangements for the trading function, trading fund, and implementation arrangements, including the timeframe for updates to AEMO’s procedures and guidelines. The final rule:
- provides that, if AEMO is exercising the current trading function under the existing Part 27 rules at the time this rule commences, AEMO can complete that exercise under the Part 27 trading function rules
 - provides that, if AEMO has any funds remaining in the trading fund on commencement of the rule (or after completing a trading function intervention referred to above), AEMO will refund those amounts
 - requires AEMO to consult on and update relevant procedures and guidelines, including the ECGS Procedures, by no later than 1 April 2027.

Contents

1	The Commission has made a final determination	1
1.1	Our final rule guides AEMO’s use of its ECGS trading function	1
1.2	Stakeholder feedback shaped our determination	2
1.3	Making the final determination in a changing landscape	3
1.4	How the stage 2 rules will be implemented	5
1.5	A hypothetical scenario of how SoLR could work	6
2	The rule will contribute to the national gas objective	8
2.1	The Commission must act in the long-term interests of gas consumers	8
2.2	The final rule contributes to the NGO	8
2.3	Other considerations in making the final rule	12
3	Key design features of the SoLR mechanism	14
3.1	Draft rule key design features	14
3.2	Principles to guide AEMO’s use of SoLR	15
3.3	A range of SoLR services are available to AEMO	16
3.4	Including administered demand response in SoLR	17
3.5	SoLR is available across the ECGS throughout the year	20
3.6	SoLR will co-exist with the Dandenong LNG interim arrangements	20
4	Constraining AEMO’s SoLR costs	22
4.1	Framework and level of the cost constraint	23
4.2	Scope of the SoLR cost constraint	28
4.3	Different payment approaches within a SoLR contract	29
4.4	Governance arrangements for the cost constraint	30
4.5	Implications for cost recovery	31
5	Preconditions and trigger for the SoLR mechanism	33
5.1	Draft rule on preconditions and triggers	33
5.2	Stakeholders provided feedback to the draft determination	34
5.3	Responding to an additional suggestion raised by stakeholders	36
5.4	Description of the final policy position and final rule	36
6	Operating SoLR	41
6.1	Draft rule on operating SoLR	42
6.2	Stakeholders provided feedback on the draft rule	42
6.3	The SoLR operational design remains consistent with the draft rule	42
6.4	Relinquishing SoLR services	45
6.5	SoLR as a last resort tool	45
6.6	Activating SoLR in and out of the facilitated markets	46
6.7	Changes to information in procedures	48
7	Implementing a demand-based cost recovery and proceeds distribution approach	50
7.1	Draft rule cost recovery arrangements	50
7.2	The trading fund is replaced with a standardised cost recovery process	51
7.3	Establishing a SoLR contract will trigger cost recovery	51
7.4	A demand-based cost recovery methodology applies	52
7.5	Costs will be determined based on the time and location of the SoLR event	54
7.6	Redistributing proceeds from relinquishing SoLR contracts	55
7.7	Improved transparency around cost recovery and proceeds distribution	55

8	Improving transparency and accountability for SoLR	58
8.1	Draft rule transparency and accountability arrangements	58
8.2	Improved notices to better inform the market	59
8.3	Improving AEMO's accountability	62
9	Implementation and transitional arrangements	66
9.1	Draft rule implementation and transitional arrangements	66
9.2	Transitional arrangements for the trading function and fund	66
9.3	Updating procedures and guidelines	68
9.4	Reviewing SoLR after its initial use	70
9.5	Implementation costs	71
Appendices		
A	Rule making process and rule change request	72
A.1	The rule making process	72
A.2	About this rule change request	72
B	Legal requirements to make a rule	75
B.1	Final rule determination and more preferable final rule	75
B.2	Power to make the rule	75
B.3	Commission's considerations	76
B.4	Making gas rules in Western Australia	76
B.5	Civil penalty provisions and conduct provisions	77
C	Changes from draft to final rule	79
Abbreviations and defined terms		82
Tables		
Table 1.1:	The rules will be implemented progressively	5
Table 4.1:	Contract price limit options	26
Table 4.2:	Impact of different options for annual aggregate spending limit	27
Table 8.1:	Integrated SoLR and tiered risk or threat signalling framework notices	61
Table B.1:	Deleted civil penalty provision recommendation	77
Table C.1:	Key design features (Chapter 3)	79
Table C.2:	Constraining AEMO's SoLR costs (Chapter 4)	79
Table C.3:	Preconditions and trigger for the SoLR mechanism (Chapter 5)	79
Table C.4:	Operating SoLR (Chapter 6)	80
Table C.5:	Implementing demand-based cost recovery and proceeds distribution (Chapter 7)	80
Table C.6:	Improving transparency and accountability (Chapter 8)	80
Table C.7:	Implementation and transitional arrangements (Chapter 9)	81
Figures		
Figure 1.1:	Key components of the RSA framework	3
Figure 1.2:	Stage 2 RSA reforms: Relationship between NOC, PASA, ERSAA, and SoLR rules	4
Figure 1.3:	Hypothetical scenario of how SoLR could work	7

1 The Commission has made a final determination

This final determination is to make a more preferable final rule (final 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 proposed 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 may establish and activate the SoLR mechanism, how the SoLR mechanism operates in the ECGS, and how costs will be recovered.

In response, the more preferable final 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.

The final rule is the same as the draft rule in many aspects, however, some details have been changed to reflect stakeholder feedback to the draft determination and rule. This includes:

- the cost constraint on AEMO's establishment and use of SoLR service contracts
- how gas for SoLR services is brought into the facilitated markets
- adding a new requirement that AEMO review the SoLR procedures and other documents following the first use of the mechanism.

This chapter outlines:

- Section 1.1 provides an overview of the final rule
- Section 1.2 describes stakeholder feedback to the draft determination that helped make the final rule
- Section 1.3 describes how our determination supports gas sector reforms
- Section 1.4 outlines the implementation timeframe for the stage 2 RSA rules
- Section 1.5 includes a hypothetical scenario of how SoLR could work.

1.1 Our final rule guides AEMO's use of its ECGS trading function

Consistent with the objective of the rule change request, the final rule guides AEMO's use of its existing ECGS trading function, under the NGL, providing clarity to AEMO and industry participants.

To do this, the final rule:

- removes the trading fund and associated rules
- introduces a SoLR mechanism that enables 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 is required to 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 contract to the tiered risk or threat signalling framework included in the ECGS Enhancing reliability and supply adequacy arrangements (ERSAA) rule
- minimises any market distortions arising from the use of the SoLR mechanism. 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 \$40 per gigajoule cost constraint on what AEMO can contract for SoLR services and an annual aggregate spending limit of \$50 million that applies to actual expenditure on SoLR contracts
- requires AEMO to publish a set of notices to inform market participants when AEMO establishes, activates and ceases to use the SoLR mechanism
- details how AEMO is to recover SoLR costs from, or distribute SoLR proceeds to, relevant entities, including establishment of a specific SoLR financial account
- increases transparency by requiring AEMO to publish two post-activation reports with information on how it used the SoLR mechanism to address or mitigate the threat.

1.2 Stakeholder feedback shaped our determination

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

In addition, AEMO has provided ongoing assistance to enable the Commission to establish a workable, fit for purpose SoLR mechanism that meets the needs of industry participants and supports the other rules in the stage 2 reliability and supply adequacy (RSA) reform package.

The key findings and observations that shaped the Commission's final determination included:

- Stakeholders broadly supported the intent of the draft rule providing guidance on how AEMO can use its NGL trading function, including providing qualified support for a SoLR mechanism to clarify and provide guardrails around the ECGS trading function
- Stakeholders requested clarity around some design features, including the:
 - SoLR principles, see chapter 3
 - preconditions and trigger framework, see chapter 5
 - transparency and accountability measures, see chapter 8
- Stakeholders requested further detailed consideration of certain design features, including:
 - the SoLR service price limit, see chapter 4
 - how gas is scheduled into the facilitated markets with least cost changes to its operating systems, see chapter 6

- refining the cost recovery methodology, see chapter 7
- implementation dates for the stage 2 RSA rule package, see chapter 9.

1.3 Making the final determination in a changing landscape

1.3.1 Our determination supports RSA reforms

The SoLR rule change request is one of four rule changes in the stage 2 RSA reform package.³ 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.⁴

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 final determination is a third reform package for the RSA framework (the long term (LT) RSA reforms). This package included two aspects: a new ability for AEMO to support investment in gas infrastructure, and including in the gas statement of opportunities (GSOO) more detailed information on potential supply-side projects that could be developed to alleviate potential structural shortfalls in the ECGS.

Following public consultation on these proposed policy changes, Energy Ministers decided not to progress the investment support role for AEMO. However, the proposed changes to the GSOO are anticipated to be implemented in the future.⁵

Figure 1.1 below illustrates the full RSA framework for the ECGS, assuming that the stage 2 package and the GSOO extension changes 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

Market settings in the DWGM and STTM					
<p align="center">Gas Reliability Committee (stage 2 reforms) Appointed by the AEMC to provide advice on the market price settings in the DWGM and STTM to ensure they remain appropriate</p>					
Monitoring and communication of risks or threats					
Monitoring tools				Communication tools	
<p>GSOO and VGPR (stage 2 reforms) AEMO assesses supply shortfalls and provides location information</p>	<p>ST and MT PASA (stage 2 reforms) Provide rolling assessments of supply and infrastructure adequacy to meet forecast demand</p>	<p>Notice of closure (stage 2 reforms) Require notification of planned supply and infrastructure outages to improve market transparency</p>	<p>GSOO (LTRSA reforms) Proposal to extend the GSOO to assess investment options that could address longer-term supply adequacy risks</p>	<p>GSAR Conferences (stage 1 reforms) Enable AEMO to obtain information and signal emerging risks and the potential need for market response</p>	<p>Risk or threat notices (stage 2 reforms) Introduce a tiered risk or threat signalling framework to improve transparency on supply adequacy risks to and reduce the need for intervention</p>
AEMO last resort RSA powers					
<p>ECGS Directions tool (stage 1 reforms) Allows AEMO to direct relevant entities to take certain actions if it is of the opinion that it is necessary to prevent, reduce or mitigate an identified threat</p>			<p>ECGS SoLR mechanism (stage 2 reforms) Allows AEMO to obtain covered gas or gas services if it considers that it is necessary to prevent, reduce or mitigate an identified and notified threat</p>		
Jurisdictional emergency arrangements					
<p>Jurisdictional powers (stage 1 reforms) Jurisdictions have their own emergency powers that can be exercised by a Minister or agency in an emergency. They have also established the National Gas Emergency Response Advisory Committee to help manage multijurisdictional emergencies</p>					
Accountability measures					
<p>Reporting to Energy Ministers (stage 1 reforms) AEMO must report to Energy Ministers annually on the performance of its RSA functions</p>			<p>ECGS intervention reports (stage 2 reforms) AEMO must publish a post-intervention report if it uses its directions or SoLR functions</p>		
Gas reservation scheme					
<p>Energy Ministers to consult on a proposed gas reservation scheme to address any structural supply shortfalls in the ECGS</p>					

Note: Stage 1 reforms came into effect in May 2023, Stage 2 has been delivered through the NOC, PASA, ERSAA and SoLR rules. Energy Ministers are considering the long-term reliability and supply adequacy (LTRSA) proposals

Source: AEMC.

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

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

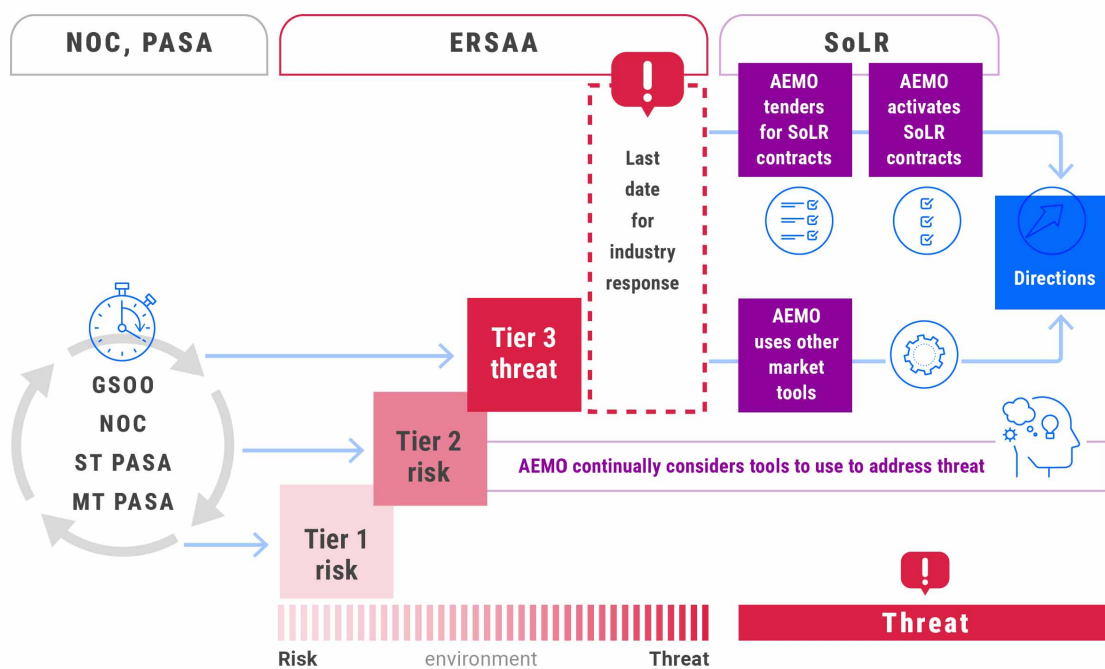
5 Energy and Climate Change Ministerial Council, [meeting communiqué](#), 8 May 2026.

In making this final determination and final rule, the Commission has considered the interaction with and impacts on the ERSAA and PASA rules.⁶ This has meant assessing each rules’ market and technical arrangements holistically and individually to ensure they best promote and contribute to the achievement of the national gas objective (NGO).

For example, as illustrated in Figure 1.1 above, this final rule builds on and interacts with the ERSAA 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 rule, in turn, utilises the reporting requirements as described in the PASA 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 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 rules, and the ECGS Notice of closure of gas infrastructure (NOC) rule, are illustrated in Figure 1.2 below.

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



Source: AEMC.

1.3.2 Our determination supports broader gas sector reforms

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 (ADGSM), heads of agreement (HoA) and key parts of the Gas Market Code with a domestic gas reservation scheme. As proposed, this scheme would require LNG exporters to commit to supply a share of their production, equivalent to 20 per cent of exports, to the domestic market in return for the

⁶ The ECGS Notice of closure of gas infrastructure (NOC) rule change process was completed on 11 September 2025.

ability to export LNG.⁷ Complementary recommendations from the review include changes regarding:⁸

- 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.⁹ The Commonwealth is progressing work on its recommendations, with consultation on the draft design closing on 30 June 2026.

1.4 How the stage 2 rules will be implemented

The final rules comprising this package of reforms will be implemented progressively. The final rules specify key dates for implementing the package of reforms. The sequence of key dates, milestones and related rules is listed in Table 1.1 below.

Table 1.1: The rules will be implemented progressively

Date	Milestone	RSA rule
16 July 2026	Transitional rules commence. This commencement enables the following activities and milestones.	PASA, ERSAA, SoLR
5 November 2026	After the completion of the 2026 market settings review, AEMO is no longer required to conduct those reviews.	ERSAA
1 April 2027	AEMO’s ECGS and BB procedure updates, including: <ul style="list-style-type: none"> • Details of PASA related new and amended information disclosure requirements • Details of the SoLR mechanism • Risk or threat signalling framework From this date AEMO will use its existing processes to operate the risk or threat signalling framework, until the new PASA is fully operational (8 June 2028).	PASA, ERSAA, SoLR
1 October 2027	AEMO publishes the gas supply adequacy assessment (GSAA) methodology.	ERSAA
6 April 2028	New information disclosure obligations	PASA

⁷ Media release, [Albanese Government to secure Australian gas for Australian users](#), 7 May 2026.

⁸ DCCEEW and DISR, *Gas market review report*, 22 December 2025.

⁹ DCCEEW and DISR, *Domestic gas reservation scheme draft design framework*, May 2026, p 19.

Date	Milestone	RSA rule
	commence for industry participants AEMO commences a PASA trial.	
8 June 2028	AEMO formally commences PASA. AEMO to use PASA outputs to inform its assessment of risks or threats.	PASA

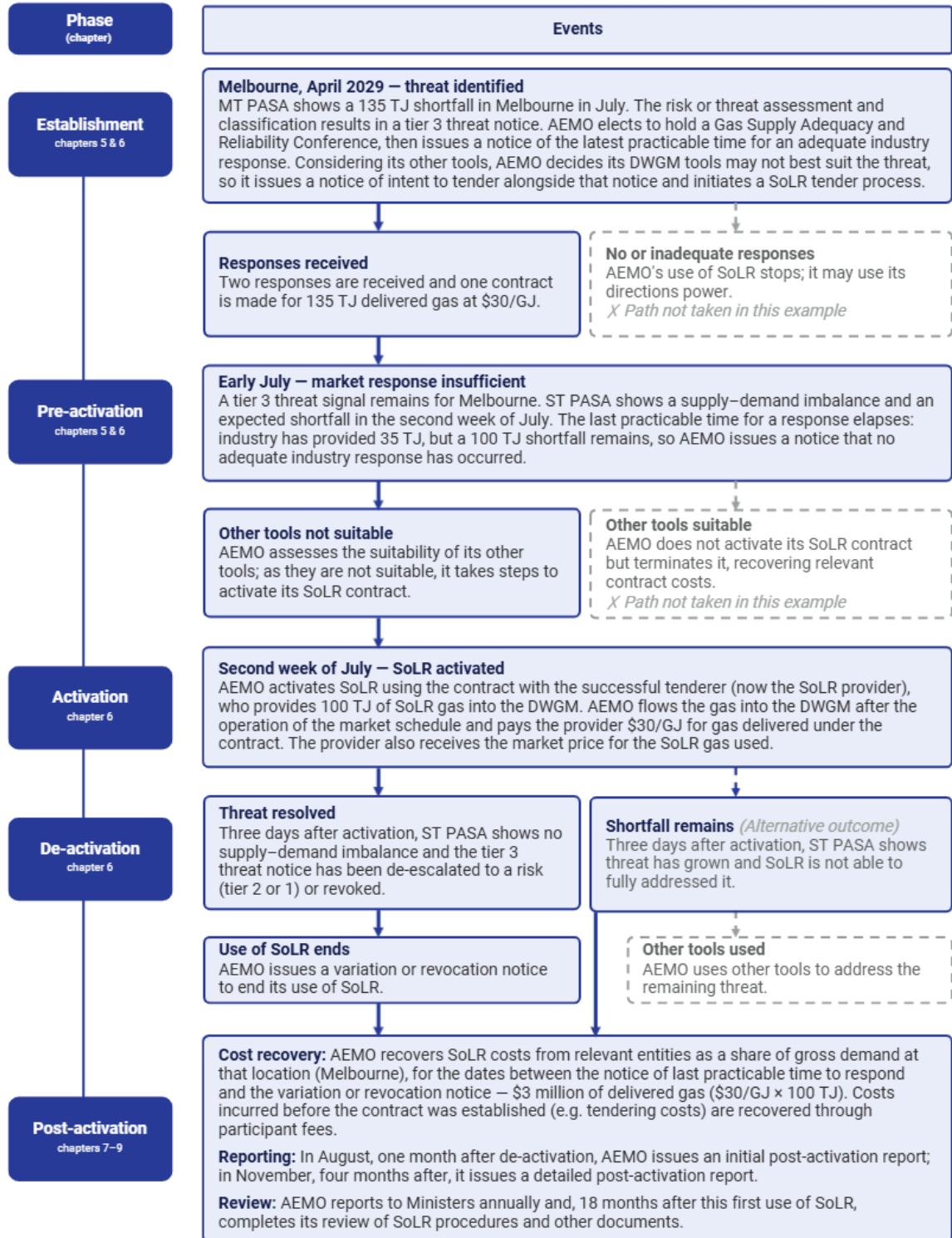
Source: AEMC.

1.5 A hypothetical scenario of how SoLR could work

This hypothetical scenario illustrates how SoLR could be used. The scenario assumes that AEMO identifies a demand-supply gap in Melbourne through MT PASA three months before the gap is expected to occur. The figure sets out a high-level flow of events and decisions that may follow, noting the relevant chapter of this final determination for each phase.

The figure is not intended to capture all the details included in the SoLR final rule.

Figure 1.3: Hypothetical scenario of how SoLR could work



Source: AEMC.

2 The rule will contribute to the national gas objective

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

In this chapter:

- Section 2.1 outlines the NGO test that the Commission must apply to make a final rule
- Section 2.2 explains how the final rule contributes to the achievement of the NGO
- Section 2.3 notes other considerations in making the final rule.

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 that the rule will or is likely to contribute to the achievement of the relevant energy objectives.¹⁰

For this rule change, the relevant energy objective is the NGO:¹¹

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.¹²

There are also a number of relevant legal requirements for the Commission to consider under the NGL to make a final determination. These include:

- whether to make a more preferable rule (see appendix B for the legal test): the Commission has determined to make a more preferable final rule, for the reasons set out below and in the following chapters
- whether the rule is compatible with AEMO’s functions: the Commission has concluded that the final rule is compatible with AEMO’s functions, for the reasons set out in appendix B
- whether the rule applies in Western Australia: the Commission has concluded that it does not, for the reasons set out in appendix B.

2.2 The final rule contributes 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 has also considered how the rule provides guidance and

¹⁰ Section 291(1) of the NGL.

¹¹ Section 23 of the NGL.

¹² Section 72A(5) of the NGL.

guardrails on AEMO's use of its ECGS trading function, to satisfy the criteria and contribute to achieving the NGO.

For this rule change process, we have applied the following criteria as the most relevant to this rule, to assess whether the final rule would better contribute to the achievement of the NGO than the proposed rule, no rule change and other policy options:

- Safety, security and reliability: whether providing greater regulatory prescription through the 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 promote efficiency by facilitating a market-led response and incentives to address threats of gas reliability and supply adequacy, and in the 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, and promote efficient gas services.

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NGO. Our reasons for choosing these criteria are set out in Appendix A of the consultation paper.¹³

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 provides guidance and guardrails for AEMO on how to use its ECGS trading function under the NGL 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 and storage facilities, and having sufficient infrastructure capacity to deliver gas to those who seek it.

The ECGS trading function introduced through the stage 1 RSA reforms recognised that risks and threats to reliability and supply adequacy may need to be addressed in the ECGS. However, the NGR provided minimal regulatory guidance on how AEMO should exercise its trading function.

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

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

- Clarity and certainty for AEMO and market participants on when AEMO may use its ECGS trading function in response to a threat to gas reliability. This includes clarifying that the hierarchy of responses is 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. Where there has been an inadequate response and the threat persists, AEMO may use

¹³ AEMC, *ECGS Supplier of last resort mechanism*, consultation paper, 25 September 2025.

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 final rule. Greater clarity and certainty regarding responses to a threat to reliability and supply adequacy 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 cost constraint that limits the amount AEMO can contract and expend on SoLR services, are expected to enable AEMO to more confidently use its ECGS trading functions to address and promote reliability.
- Transparency to industry participants through notices issued by AEMO on when SoLR may be established, activated, and ceased to be used. Providing transparency and predictability supports any complementary industry responses to address threats to gas reliability and, as a result, promotes greater reliability for gas users.

2.2.2 Enabling efficient market operations

The Commission considers the final rule promotes market efficiency better than the current trading function 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 they 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. The final rule clearly prioritises industry response ahead of AEMO using the SoLR mechanism, and therefore promotes efficiency as discussed below.

Taking into account stakeholder feedback, the final design of the SoLR mechanism promotes market efficiency because it:

- Provides greater clarity on AEMO's use of the ECGS trading function through the SoLR mechanism 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. This means that participants have the opportunity to address the threat first, before AEMO considers whether to intervene. When market response is inadequate and the threat persists, even after applying any other possible tools available to AEMO, then AEMO may consider using its ECGS trading function, by using SoLR.
- Minimises any market distortions on AEMO's use of the ECGS trading function through the following design features:
 - the SoLR mechanism is lower than industry response in the hierarchy of responses to address a threat to gas reliability and supply adequacy
 - there is 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 and complemented by the ability to convene a gas reliability and supply adequacy conference
 - AEMO must use a competitive tendering process rather than directly buying or purchasing gas or services in the facilitated markets.
- Includes 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 is able to consider the most appropriate mix of supply and demand responses in establishing a SoLR service contract
- AEMO is to conduct a competitive tendering process so that responses from industry to provide SoLR services are subject to competitive downward pressure on costs
- there is a cost constraint that limits the amount AEMO can contract and expend on SoLR services.

2.2.3 Aligning the rule with good regulatory practice principles

The Commission considers the final rule aligns 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.

The Commission considers the final rule 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.

The Commission has designed the SoLR mechanism with the following features to enhance transparency and predictability compared to the current rules on the trading function:

- mandatory principles that constrain AEMO's discretion on when it uses the SoLR mechanism, see chapter 3
- establishing and activating the SoLR mechanism is clearly linked to the tiered risk and threat signalling framework to provide transparency about when SoLR may be used and under what circumstances, see chapter 5
- greater specificity on how costs would be recovered and proceeds are to be distributed, see chapter 7
- using a set of notices to inform industry participants on when SoLR may be used by AEMO, see chapter 8
- requiring AEMO to provide operational details on the SoLR mechanism in the ECGS Procedures, see chapter 6
- clearer and regular reporting requirements for AEMO to inform industry participants on its use of the SoLR mechanism, see chapter 8.

The final rule is also consistent with the direction of broader gas market reform. The Commission has considered this rule change request with other stage 2 RSA rule change processes underway: the PASA rule change request and the ERSAA rule change request (see chapter 1). This final rule is connected with those other rule changes where appropriate, to ensure the package works as intended. For example, the information on gas supply-demand imbalances established by the PASA rule will, when in effect, be one of the inputs to the risk and threat signalling framework in the ERSAA rule change request, which, in turn, will be the basis for triggering the use of the SoLR mechanism (when there is a tier 3 threat).

The Commission has also considered the final rule in the context of other government reforms, namely the Commonwealth's Gas Market Review to support investments in gas infrastructure (see chapter 1).

2.2.4 The final rule better contributes to the NGO than alternatives

The Commission has evaluated the impacts of the various policy options against the assessment criteria, taking into account stakeholder submissions and other information. The more preferable

final 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 final 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.¹⁴ This is also complemented by the addition of gas reliability and supply adequacy conferences for SoLR. See chapter 5 for more information.
- It provides greater clarity on the hierarchy of interventions AEMO may 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 trading function, which do not provide this level of detail and guidance for AEMO.
- Compared to the current rules on the trading function, the final rule introduces additional guidance and guardrails that set clear boundaries around AEMO's use of this mechanism, which reinforces the last resort nature of the trading function.
- The final rule sets out principles to guide AEMO's use of the mechanism, including a clear price limit and consideration of the impact on gas users. See chapter 3 for more information.
- AEMO has a dual cost constraint that limits the amount it can contract and expend on SoLR services (escalated by CPI over time). This cost constraint limits the amount that is ultimately recovered from gas users through the SoLR cost recovery mechanism. In addition to managing the cost impact of the SoLR mechanism, the constraint levels have been set to mitigate potential market distortions that may arise from them. See chapter 4 for more information.
- The operation of SoLR is also 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. See chapter 6 for more information.
- The mechanism includes a clear set of notices to inform the market when AEMO establishes, activates and ceases to use the SoLR mechanism. The final rule also imposes reporting requirements on AEMO. These aspects of the final rule provide transparency and accountability to industry participants and governments about how and why SoLR is used. See chapter 7 for more information.

2.3 Other considerations in making the final rule

While the intent of the rule change request was supported by many industry participants, the Commission acknowledges the fundamental concern many hold regarding the ECGS trading function and the possible market interventions that could arise from it.

¹⁴ AEMC, ECGS Enhancing reliability and supply adequacy arrangements, final determination, 25 June 2026.

However, establishing a framework (in the form of the SoLR mechanism) for how AEMO may use its trading function addresses industry participants' concerns, aligns with the proponents' purpose, and has been the Commission's primary goal in making this rule.

Even with this purpose, the rule making process has highlighted challenging choices to be considered. For example:

- whether establishing the SoLR mechanism in the NGR would, by its existence, inadvertently increase the likelihood that it is used by AEMO and the ECGS experiences more market interventions than it may have otherwise
- how, and to what extent, should the Commission reflect the proponents' aim for the mechanism to be a last resort mechanism compared to creating a mechanism that could be more readily accessible or a mechanism that enables AEMO to hold gas in storage for an extended time, for example
- using a balance of rules and procedures that provides sufficient guidance for using the trading function that is workable but not overly complex, in light of the objective that the SoLR mechanism is 'last resort' in nature and should be rarely used
- determining how to enable gas to be brought into the ECGS as a last resort before directions powers are needed, by finding a balance between empowering industry participants and enabling AEMO to act itself, including by participating in the facilitated markets it operates
- balancing incentives for industry participants to offer SoLR services to AEMO through a sufficient financial reward, with concerns about the possible market distortions that could arise and the possible cost impact SoLR could have on gas and electricity users when setting the SoLR cost constraint.

On balance, the Commission has proceeded with making a final rule to achieve the goal of guiding AEMO's use of its ECGS trading function. In doing so, it has also sought to clarify that the mechanism fills a specific role within the broader RSA framework for the ECGS. As explained above, given the existence of the trading function in the NGL, the Commission is satisfied that the final rule is consistent with achieving the NGO and will better contribute to the NGO than the proposal described in the rule change request, the status quo and other policy alternatives.

3 Key design features of the SoLR mechanism

To address reliability and supply adequacy threats in the ECGS, the Commission has made a more preferable final rule to enable AEMO to procure both supply-side and demand-side services through the SoLR mechanism. The SoLR includes key design features that aim to guide AEMO and industry participants on its use.

This chapter outlines how the final rule responds to stakeholder feedback and the policy issues, and overviews the key design features of the final rule's SoLR mechanism, including:

- Section 3.1 Outlining the key design features in the draft rule
- Section 3.2 Outlining the principles that would guide AEMO's use of the mechanism
- Section 3.3 Describing the contracted services AEMO would be able to procure
- Section 3.4 Outlining that the supply and demand-side SoLR mechanism replaces the trading fund
- Section 3.5 Outlining that SoLR will operate across the ECGS throughout the year
- Section 3.6 Illustrating how the SoLR mechanism will operate alongside the existing DWGM Dandenong LNG interim storage facility arrangements.

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

Box 1: Final rule on key design features of the SoLR mechanism

The final rule:

- Sets out principles AEMO must have regard to when establishing a SoLR service contract and activating, or using, a SoLR service contract.
- Allows AEMO to enter into contracts with one or more persons for specific services, including demand response (in accordance with its procedures).
- Allows AEMO to use the SoLR across the ECGS at any time of the year.
- Does not amend the Dandenong LNG storage facility interim arrangements.

Changes from draft to final rule:

- The final rule clarifies that AEMO is able to enter into a contract for 'services provided by a storage provider' instead of 'storage of covered gas'.

3.1 Draft rule key design features

The draft rule included several key design features for the SoLR mechanism. These were:

- mandatory guiding principles AEMO would apply when establishing or using the SoLR reserve:
 - 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
 - aim to maximise the effectiveness of SoLR to address the threat to reliability at least cost to gas consumers
 - to the extent practicable, be consistent with the emissions targets statement
 - not compromise safety

- Amounts payable by AEMO should be less than the price limit set at the DWGM MPC (taking into account both fixed and variable costs)
- AEMO would be able to enter into contracts with one or more persons for the following services:
 - 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
- the mechanism would operate as an ECGS wide tool
- the mechanism would operate alongside, and would not change, the DLNG last resort mechanism.

The following sections explain the approach taken to these design features in the final rule, having regard to relevant stakeholder feedback and other information.

3.2 Principles to guide AEMO's use of SoLR

The final rule, in line with stakeholder feedback, sets out mandatory principles AEMO must have regard to when establishing a SoLR reserve and activating, or using, a SoLR reserve.¹⁵

The final rule is consistent with the draft rule in many aspects. 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
- aim to maximise the effectiveness of SoLR to address the threat to reliability or adequacy of supply of covered gas at the least cost to gas consumers
- to the extent practicable, be consistent with the emissions targets statement
- not compromise safety.

The final rule also includes an updated financial principle to apply to AEMO's SoLR expenditure. The SoLR cost constraint is discussed in chapter 4.

In response to the draft determination, stakeholders considered that the guiding principles outlined in the consultation paper are broadly 'sensible' and appropriately designed to limit the potential distortionary effects of the mechanism.¹⁶

However, some stakeholders recommended that:

- the rules should explicitly articulate the importance of preserving commercial contracting incentives as a SoLR principle to strengthen guidance to AEMO and market participants¹⁷
- emissions targets should not be considered as a principle, because this may introduce additional complexity into the assessment process which may impede timely action or result in more costly SoLR services.¹⁸

CS Energy also recommended amending the draft rule SoLR principles to align with the original proposed principle where "the average amount payable by AEMO for each GJ should not exceed

¹⁵ Rule 699A of the final rule.

¹⁶ Submissions to the draft determination: CS Energy, p 3; Jemena, p 2.

¹⁷ Submission to the draft determination: EnergyAustralia, p 4.

¹⁸ Submission to the draft determination: Jemena, p 2.

the estimated average value of gas customer reliability (VGCR) for the location the SoLR reserve has been established for”.¹⁹

Stakeholders also raised concerns around the price limit proposed in the principle that describes the amounts payable to AEMO. See chapter 4 for a detailed analysis.

Having considered these points raised, the Commission considers:

- The importance of preserving commercial contracting incentives is already embedded in the principle that AEMO should act in a way that it reasonably expects to have the least distortionary effect on the operation of the ECGS. This principle promotes market efficiency, as it helps provide guidance on an appropriate balance between market operations (such as contracting) and SoLR. Additionally, the high threshold for triggering SoLR (see chapter 5) recognises the importance of preserving commercial contracting incentives and normal market operations before SoLR. For these reasons, EnergyAustralia’s suggestion has not been incorporated into the final rule.
- AEMO is required to be consistent with the emissions targets statement, to the extent it is practicable when utilising SoLR. The use of ‘to the extent practicable’ addresses Jemena’s concerns - the principle would not impede timely action or result in costly SoLR services as AEMO is required to maximise the effectiveness of SoLR to address the threat to reliability at least cost to gas consumers.
- The Commission has not proceeded with a VGCR due to complexity and costs in adopting the approach.²⁰ However, CS Energy’s recommendation of providing financial guidance to AEMO is reflected in the final rule. This is discussed in chapter 4.

The Commission is satisfied that the draft rule principles discussed above recognise the concerns raised by stakeholders and has decided to retain the principles to guide AEMO’s decisions and operation of the SoLR. The final rule is consistent with the draft rule in regard to these principles. The final rule differs to the draft regarding the price limit. This is discussed in chapter 4.

Collectively, the SoLR principles set out above will 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 provide greater certainty than the previous trading function for AEMO and market participants, yet afford some discretion and flexibility for AEMO to choose a course of action in line with these principles and other design features.

A principles-based approach will align with a SoLR mechanism designed to address risk, involving probabilities on when and how it could be used. This principles-based approach is complemented by other prescriptive arrangements (see chapter 5 and chapter 7), which provide predictability and stability while enhancing good regulatory practice. For these reasons, the Commission is satisfied the principles in the final rule are consistent with achieving the NGO.

3.3 A range of SoLR services are available to AEMO

The final rule, in line with stakeholder feedback, allows AEMO to enter into one or more contracts with one or more persons for the following services:²¹

- the sale or supply of covered gas

¹⁹ Submission to the draft determination: CS Energy, p 3.

²⁰ AEMC, *ECGS reliability standard and associated settings*, [Directions paper](#), 28 August 2025.

²¹ Rule 699C of the final rule.

- pipeline services (including transportation, delivery or haulage of covered gas and pipeline capacity related services)
- services provided by a storage provider
- administered demand response
- any other services referred to in section 91AD(f) of the NGL.

In response to the draft determination, stakeholders considered that the AEMC should expand SoLR to include liquefied natural gas (LNG) import services, independently of the Commonwealth's Long term reliability and supply adequacy (LT RSA) reforms, as it would broaden the options available for SoLR to address acute shortfalls through a tightly controlled process.²²

In addition, AEMO stated that it does not consider that LNG currently falls within the definition of "covered gas" and that as a result, it does not have an explicit function to trade or contract in LNG under the NGL.²³

Stakeholders provided no further commentary on the services in the draft rule, except for demand response (discussed below), that AEMO may enter into contracts for.

The Commission acknowledges these stakeholder concerns, and notes that:

- the definition of 'covered gas' is set out in the NGL, and as such, whether LNG is included in that concept (and therefore whether AEMO can trade in LNG for SoLR) is not a matter for the NGR.²⁴
- the final rule clarifies that AEMO can purchase 'services provided by a storage provider',²⁵ consistent with the wording of the relevant provision in the NGL.²⁶ This means that AEMO can procure storage of LNG under a SoLR service contract (regardless of the interpretation of 'covered gas') as the NGL defines 'storage provider' as any person who owns, controls or operates a storage facility, and 'storage facility' explicitly includes a facility for storing LNG.²⁷

As a result, the final rule retains the four SoLR services AEMO may contract for as specified in the draft rule. It also clarifies that AEMO can contract for LNG storage services and other services specified in the section of the NGL on the trading function.²⁸ The Commission is satisfied that this provision of the final rule is consistent with achieving the NGO because it provides for the widest possible range of SoLR services, increasing the potential efficiency of the mechanism.

3.4 Including administered demand response in SoLR

The SoLR mechanism differs from the existing trading fund arrangements in many ways, but most notably in AEMO's ability to procure administered demand response. Stakeholders raised some reservations about aspects of the draft rule and the premise of AEMO trading in the ECGS. However, they generally supported including administered demand response as an option.

22 Submissions to the draft determination: Jemena, pp 1-2; APGA, p 5; Squadron, pp 1-2.

23 Submission to the draft determination: AEMO, p 1.

24 The AEMC does not have powers to amend provisions in the NGL through a change to the NGR.

25 Rule 699C(c) of the final rule, amended from 'storage of covered gas' in the draft rule.

26 Section 91AD(1)(f) of the NGL, on the trading function.

27 Section 2 of the NGL, definitions.

28 Rule 699C of the final rule; s 91AD(1)(f) of the NGL.

3.4.1 Stakeholders supported the draft rule

Stakeholders generally supported giving access to a mix of supply and demand options under the SoLR mechanism, but emphasised the effectiveness and efficiency of these options depend on competitive procurement and careful contract design.

While most stakeholders did not comment on the inclusion of demand response, several stakeholders indicated their explicit support for including demand response in the SoLR.²⁹

Origin Energy supported the SoLR mechanism, including supply, storage and demand response options and considers this broader range of services could improve the predictability of AEMO's interventions. Origin states "the proposed SoLR mechanism could potentially assist with managing high-demand periods (where necessary) by providing a structured framework for procuring supply, storage and demand response services".³⁰

Australia Pacific LNG (APLNG) expressed more cautious support. While opposing the introduction of the SoLR mechanism overall, APLNG indicated its preference for a competitive tendering process, compared to a standing panel approach as proposed in the rule change request. It notes a competitive tendering approach for demand response "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".³¹

On demand response, stakeholders recognised its potential role but highlighted uncertainty regarding its effectiveness. Origin supported integrating demand response within the SoLR, while acknowledging limitations, stating "while we remain unsure as to the quantum of commercial and industrial (C&I) demand that could practically respond to system threats, we support integrating demand response into the SoLR mechanism as proposed by the draft rule".³²

APLNG also accepts demand-side participation in principle, but raised concerns about the design of demand response contracts. APLNG stated "while APLNG could support the inclusion of demand-side responses in the SoLR mechanism, we do not support the introduction of an availability payment".³³ APLNG considered that availability payments triggered only when the SoLR is activated are "unlikely to provide the level of revenue certainty needed to support forward-looking investment decisions" and would "impose unnecessary costs on gas users".³⁴

AGL, while broadly not supporting the SoLR framework, indicated limited support for including demand response in the SoLR, stating "in a genuine shortfall event, where supply cannot be increased in time, reducing consumption may be the only practical way to avoid curtailment". Specifically, AGL notes, "if there is a case for intervention, it is easier to see in relation to demand response".³⁵

Noting the barriers large gas customers face to providing demand response and the likely infrequency of procuring demand response through the SoLR, AEMO expressed concern about the extent of procedures that would have to be developed upfront under the draft rule. In particular, it noted under the draft rule "administered demand response under SoLR would require AEMO to establish and maintain a standing procurement, baselining verification, and settlement framework

29 See the submissions to the draft determination from AGL, APGA, Origin, and Alinta.

30 Submission to the draft determination: Origin, p 1.

31 Submission to the draft determination: APLNG, p 3.

32 Submission to the draft determination: Origin, p 3.

33 Submission to the draft determination: APLNG, p 3.

34 Submission to the draft determination: APLNG, p 3.

35 Submission to the draft determination: AGL, p 1.

for events expected to occur infrequently”.³⁶ This was a key implementation concern for AEMO, and it recommended a staged approach to implementation.³⁷

The Commission appreciates the feedback provided by stakeholders, which has informed and shaped the AEMC’s decision-making and consideration of issues relevant to the final rule.

On balance, the Commission’s final determination is the NGR should not prevent demand response participants in the SoLR mechanism from receiving a payment for participating, or being available to provide demand response. The AEMC notes, however, that an availability fee would be paid as part of a SoLR service contract. As a result, the availability fees would be subject to the SoLR price limit.

3.4.2 AEMO can contract for supply and demand side services

Taking into account the NGO, stakeholder views and the Commission’s assessment criteria, the Commission has determined to make a final rule that enables AEMO to procure administered demand response as a SoLR service and provides AEMO flexibility in how it contracts for demand response. The final rule is largely the same as the draft rule for the reasons summarised below. The only change is that rather than requiring AEMO to provide detailed information on technical demand response matters in its procedures, bidders will propose their preferred approaches (e.g. regarding baselining, measurement and verification) when submitting tenders for administered demand response services.³⁸

By incorporating demand response as a service within the SoLR, the final rule provides opportunities to free up gas supply that may have been previously inflexible due to fixed gas supply agreements. This also supports competition by enabling more participants to bid into the tender process, potentially lowering prices, where consumers offer to provide demand response at a price lower than supply. In either case, the expected benefits of enabling demand response exceed the expected costs.³⁹

Integrating supply and demand responses is likely to reduce implementation and operational costs. It avoids establishing separate mechanisms. This enables efficiencies in design, operation, and maintenance. This aligns with the principles of good regulatory practice, and is consistent with stakeholder feedback throughout the rule change process that was largely unsupportive of a standalone mechanism.⁴⁰

The Commission also considers allowing AEMO to consider both supply-side and demand-side options to manage gas reliability and supply adequacy threats in the ECGS may lead to better reliability outcomes for gas consumers. As demand is not always price sensitive due to long-term contracting, in some cases, using demand response to manage a reliability threat may be preferable to relying on a supply-side option. Making this option available can improve market efficiency. It also offers the greatest prospect of success as a market-wide solution by enabling AEMO to select the most appropriate resources for the location with the identified threat.

Likewise, including demand response in the SoLR will, to the extent SoLR contracts utilise it, support governments’ emissions reduction objectives (and therefore support achievement of the NGO), because demand response involving turning off or down consumption, rather than

36 Submission to the draft determination: AEMO, p 3.

37 Submission to the draft determination: AEMO, p 3.

38 Rule 699G of the final rule.

39 Noting expected costs are limited to the cost of a SoLR contract which is limited, for both between supply and demand products, by the SoLR contract price limit.

40 Submission to the consultation paper: Origin Energy, p 4.

switching fuels, results in lower emissions. AEMO is required to consider these benefits as part of the SoLR principles.⁴¹

While some stakeholders raised concerns about the costs associated with availability payments for demand response, the Commission considers that these payments may, on balance, encourage greater participation in SoLR than would otherwise be the case. The Commission's view is the NGR should not prohibit demand response participants in the SoLR mechanism from receiving payments for participation or availability, particularly given any availability payment would be made only under an established SoLR contract and as such would be subject to the SoLR price limit, and would be expected to occur infrequently. Nonetheless, the Commission has taken into account the feedback of stakeholders in making this decision and has designed other aspects of the mechanism to minimise costs.

By setting out guidance and guardrails for AEMO's use of the administered demand response, the final rule is intended to provide AEMO and industry participants with greater transparency and certainty than is available under the current trading function or the proposed panel arrangements. Further, applying the same overarching approach to both supply- and demand-side options should increase consistency and simplicity by enabling AEMO to consider them together when making decisions. This also supports better coordination between demand and supply responses when addressing a reliability threat gas shortfall. For these reasons, the Commission considers this approach better contributes to the achievement of the NGO when compared to the rule change request and other options presented during this rule change process.

3.5 SoLR is available across the ECGS throughout the year

The final rule, in line with the draft rule and stakeholder feedback, makes SoLR available to AEMO to use across the ECGS at any time of the year.⁴²

Stakeholders provided no further commentary in submissions to the draft determination around the seasonal and geographic operation of SoLR.

The final rule provides clarity and guardrails around the SoLR mechanism (in contrast to the rules on the trading function). A mechanism that operates consistently across the ECGS and throughout the year will help achieve this clarity. The interconnected nature of the ECGS could mean an event in one part of the system could have flow-on effects to other parts, which suggests it is prudent for AEMO to have tools available at all times and in all locations. In line with the reasoning outlined in the draft determination, the Commission is satisfied that this provision of the final rule is consistent with achieving the NGO as it embeds good regulatory practice by promoting predictability, stability, and simplicity in assessing when the SoLR would be available.

3.6 SoLR will co-exist with the Dandenong LNG interim arrangements

The Commission has considered the likely interaction between the SoLR mechanism and the DWGM Dandenong LNG (DLNG) storage facility interim arrangements. Our final determination is there is no need for the SoLR rule to address any interactions between the mechanisms.

In response to the draft determination, only one stakeholder commented on this issue. APA agreed the SoLR mechanism and the interim Dandenong LNG arrangements can co-exist and there is no need for the Draft Determination to address any interactions between the two

⁴¹ Rule 699A(2)(e) of the final rule.

⁴² Rule 699B of the final rule.

mechanisms, highlighting the unique and critical system security role the Dandenong LNG storage facility plays in the Victorian gas system.⁴³

After considering this feedback, the Commission considers its analysis outlined in the draft determination remains relevant. 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.⁴⁴

Rather than streamlining or integrating the two mechanisms, allowing both SoLR and Dandenong LNG storage facility interim arrangements to co-exist (until the expiry of the latter) provides AEMO with the broadest options to address issues that may arise. The Commission considers this would contribute to the NGO, as it supports enhanced reliability and security outcomes for consumers by having recourse to both mechanisms.

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

43 Submission to the draft determination: APA, p 7.

44 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.

4 Constraining AEMO's SoLR costs

This chapter details the cost constraints that will guide AEMO's expenditure when it uses the SoLR mechanism and explains any changes between the draft and final rule, having regard to stakeholder feedback and other information.

The proponents proposed that appropriate constraints should apply to the size, term, cost and other aspects of the SoLR mechanism, to recognise that covered gas consumers will ultimately bear the cost of SoLR.⁴⁵

The draft rule introduced a cost constraint in the form of a total price limit on how much AEMO could pay for each individual SoLR contract (inclusive of fixed and variable payments) on a per GJ basis. The total limit included SoLR contract revenue (paid by AEMO to the SoLR provider) and any revenue the SoLR provider might receive through the facilitated markets.

This method was included in the draft rule after assessing several approaches for setting the level of the total price limit. The draft rule aligned the limit with the DWGM market price cap (MPC), currently \$800/GJ.⁴⁶

The Commission considered this level provided the right balance between inducing additional SoLR services beyond what the spot and contract market would provide, and being low enough to mitigate the potential impact of gaming or the risk that prospective SoLR providers would 'anchor' their offers to provide SoLR services at or near the price limit, that could otherwise arise from a higher value. However, the Commission recognised there were a range of other approaches that could also be adopted and sought stakeholder views and feedback through the draft determination.

The draft rule also provided that the gas reliability committee (which was established under the ERSAA draft rule) could review the price limit as part of its periodic facilitated market settings review.

As discussed in detail below, several stakeholders provided feedback on the design features underpinning the SoLR price limit. Following further engagement with stakeholders and analysis, the Commission has made a final rule which amends the design of the price limit from that in the draft determination.

Box 2: Final rule on SoLR cost constraint

The final rule retains some features of the draft rule:

- Includes a per contract price limit to constrain how much AEMO can contract with SoLR providers to address tier 3 threats.
- The SoLR cost constraint applies throughout the year and across the ECGS.
- The SoLR cost constraint applies consistently to supply-side and demand-side contracts.
- The contract price limit applies to each individual SoLR service contract and is assessed against contracted volumes.

The final rule differs from the draft rule in the following ways:

- The cost constraint comprises two elements:

⁴⁵ Rule change request, p 40.

⁴⁶ The MPC in the DWGM is referred to as VoLL (rule 200 of the NGR).

- an upper price limit of \$40/GJ, which applies to the SoLR contract payment made by AEMO to a SoLR provider
- a new annual aggregate spending limit of \$50 million which applies across actual expenditure on all SoLR service contracts.
- Both components of the SoLR cost constraint will be indexed annually using CPI to maintain their real value over time. This is a change from the draft rule, which specified the Gas Reliability Committee would consider future updates to the cost constraint.

The remainder of this chapter details the core features of the preferred SoLR cost constraint and provides the rationale for the final rule.

4.1 Framework and level of the cost constraint

The draft rule introduced a cost constraint in the form of a single total price limit on how much AEMO could pay for each SoLR service contract (inclusive of fixed and variable payments) on a per GJ basis. The limit applied to the total revenue a SoLR provider could receive across a SoLR contract and the facilitated markets. The draft rule set the level of the price limit at the DWGM MPC, currently \$800/GJ.

Other options detailed in the draft determination included a price limit aligned to the willingness to pay for gas reliability, historical or future facilitated market prices, an overall spending cap, and no limit. The Commission considered that, on balance, the draft rule price limit provided the right balance between inducing additional SoLR services and being low enough to mitigate the potential impact of gaming or anchoring risks that could otherwise arise from a higher value.

Most stakeholders supported constraining AEMO's use of SoLR via a cost or price limit, but considered the \$800/GJ limit was too high, risking market distortions and potentially creating high costs for gas users.⁴⁷ In contrast, AEMO noted the limit would not be high enough to attract GPG to provide SoLR services.⁴⁸ These competing views highlight the judgement involved in setting the SoLR cost constraint. A higher limit may increase the range of potential SoLR responses, but it may also increase the risk of inefficient market behaviour and higher costs for gas users.

In response to stakeholder concerns about high costs, the Commission notes that the draft rule's \$800/GJ total limit applied to the total revenue a SoLR provider could receive across a SoLR contract and the facilitated markets. However, only the difference between the SoLR contract price and market revenue would have been recovered through SoLR cost recovery arrangements and payable by gas users. For example, where the MPC applied, there would have been no additional SoLR payment in the DWGM and an additional payment of up to \$400/GJ in the STTM (reflecting the MPC in the DWGM and STTM is \$800/GJ and \$400/GJ respectively).

The Commission recognised the draft approach could still create material cost and distortion risks in some circumstances. For example, if the administered price cap (APC) applied and market revenue was limited to \$40/GJ, a SoLR contract struck at the \$800/GJ price limit would require the remaining \$760/GJ to be recovered from gas users through the SoLR mechanism. If SoLR providers anchored bids close to the \$800/GJ limit, the amount recovered from gas users could be large, even when the APC was not in effect.

⁴⁷ Submissions to the draft determination: AGL, p 3; APLNG, p 2-3; CS Energy, p 3.

⁴⁸ Submission to the draft determination: AEMO, p 2.

With respect to AEMO’s concern about GPG, the Commission recognises that the SoLR cost constraint may not be sufficient to attract SoLR responses from GPG where electricity prices are also very high (i.e., a reduction in gas consumption by GPG). This is because the profits from generating in the NEM would likely exceed the profits from not generating and instead reducing gas consumption via SoLR. However, increasing the SoLR cost constraint to attract GPG in those circumstances could materially increase market-distorting risks for other industry participants and increase costs for gas users.⁴⁹ Where both the gas and electricity markets are under significant stress, this may indicate that SoLR is not the appropriate, or sufficient, tool on its own. In those circumstances, AEMO should consider its broader suite of tools rather than relying on higher SoLR payments to secure a response. This is consistent with the rule requirements that AEMO consider using non-SoLR tools to address the identified threat to reliability prior to commencing a competitive tender process and prior to using a SoLR contract.

Having considered all views, the Commission has placed greater weight on limiting potential SoLR-related market distortions and costs to gas users. Gas users ultimately bear AEMO’s SoLR contract costs. The Commission considers these risks outweigh the benefit of setting a price limit high enough to incentivise GPG’s participation in providing SoLR services to AEMO.

Stakeholders made various suggestions to address market distortion concerns, such as setting an overall spending cap, setting a volumetric limit, setting the price limit at the Value of Lost Load (VoLL) and applying different price limits at establishment and activation.⁵⁰ As a result, the Commission undertook further policy and economic analysis, including targeted consultation with stakeholders to assess the points raised.

The EUAA suggested that the price limit be set at the VoLL, reflecting current ECGS conditions. The Commission notes this value could be estimated through the willingness to pay, which the Commission considered in the draft determination but did not progress due to market distortion risks. A higher price limit may increase the likelihood that SoLR services are made available during a tier 3 threat. However, it may also create stronger incentives for participants to withhold services from ordinary market arrangements in favour of SoLR, anchor SoLR bids close to the limit, or increase the costs ultimately recovered from gas users.

The Commission has also considered the suggestion of setting an overall ‘budget’ in terms of value or volume. The Commission considers that a volume limit does not have merit, because, in comparison to a value limit, it provides less certainty over the total costs that may be borne by customers from the SoLR mechanism and potentially high distortions as a result. Conversely, providing an overarching ‘budget’ constraint in terms of expenditure AEMO can undertake has merits and, as discussed below, has been included in the final rule.

On balance, given SoLR is intended to be a last-resort mechanism, the final rule gives greater weight to limiting the distortionary effects noted above. The final rule therefore revises the cost constraint to better manage the trade-off between encouraging additional responses and preserving efficient market incentives. The final rule also seeks to contain the cost impact on gas users, should SoLR be used.

To achieve this, the final rule replaces the single total price limit with a cost constraint on AEMO that has two elements:

49 For GPG to provide SoLR services, the SoLR payment and avoided expenditure in the facilitated wholesale market would need to be at least as valuable as the revenue the generator could earn by using the gas to generate electricity in the NEM. If electricity prices were at the 2026–27 NEM market price cap of \$23,200/MWh, a GPG with a heat rate of 10 GJ/MWh would have an implied opportunity cost of \$2,320/GJ. This is materially higher than the \$800/GJ limit proposed in the draft determination.

50 Submissions to the draft determination: APLNG, pp 2-3; EUAA, p 2; Shell, p 2; CS Energy, pp 2-3. Applying different price limits at establishment and activation was raised through subsequent meetings with stakeholders and is discussed in section 4.3.

- an upper limit on the contract price of \$40/GJ, which applies only to the SoLR contract payment made by AEMO (and so is above any revenue the SoLR provider receives through the facilitated markets), and
- an annual aggregate spending limit on SoLR contracts of \$50 million.

Together, these elements form the SoLR cost constraint for AEMO. The Commission considers this approach will minimise market distortion risks by reducing the costs (compared to the draft rule) being recovered in the limited circumstances SoLR will be used. This trade-off is expected to contribute to the NGO as it supports enhanced market efficiency by minimising market distortions.

4.1.1 Creation of a contract price limit

Under the draft rule, the total price limit applied to the total revenue a SoLR provider could receive from both the SoLR contract and any facilitated market revenue. This had some drawbacks:

- For SoLR providers in facilitated markets, it was not clear that the SoLR provider could receive the market price plus a SoLR payment, with the combined amount capped at the total price limit of \$800/GJ.
- For SoLR providers outside facilitated markets, it was not clear that the SoLR provider could receive up to \$800/GJ under a SoLR contract, with that full amount recovered through the SoLR mechanism.
- The \$800/GJ total limit was as low as it could be while ensuring that a SoLR provider with a contract at that price would be no worse off at all times compared to selling via the facilitated market. However, this could result in material payments via the SoLR mechanism at other times, such as when the APC is in effect.
- For AEMO, combining facilitated market revenue with any SoLR payment created an administrative complexity in managing settlement and cash flows.

Under the final rule, the contract price limit applies only to AEMO's payments to SoLR suppliers for a SoLR contract. It is the maximum that AEMO should pay for a SoLR contract. The final determination differs from the draft in that this condition applies only to the SoLR payment, as opposed to the total revenue received by the SoLR provider.

This approach has several advantages. It provides an upper limit for the negotiation of SoLR contracts entered into by AEMO, does not compromise incentives on AEMO to negotiate for lower prices,, reduces both distortionary risks and recoverable costs, and maintains that SoLR providers are no worse off compared to participating in the facilitated markets. It also makes the cost recovery implications clearer for gas users. As a result, the final rule contributes to the NGO through the principles of market efficiency and good regulatory practice.

These outcomes are particularly relevant during periods of system stress. The APC in both the DWGM and STTM is currently \$40/GJ and may come into effect quickly during periods of market stress. Under the draft rule's \$800/GJ total price limit, a provider receiving the APC would also receive an additional SoLR contract payment of up to \$760/GJ. The final rule's \$40/GJ contract price limit substantially reduces this additional payment while still providing an incentive for providers to make SoLR services available as many will, in total, earn more than the market price. SoLR providers outside the facilitated markets would receive only the SoLR payments contained within the SoLR services contract, which are subject to the SoLR cost constraint.

Table 4.1: Contract price limit options

Options for contract price limit	Total revenue received when DWGM MPC (\$800/GJ) in effect	Total revenue received when APC (\$40/GJ) is in effect	Total revenue flowing through SoLR cost recovery mechanism
\$760/GJ	\$1,560/GJ	\$800/GJ	\$760/GJ
\$200/GJ	\$1000/GJ	\$240/GJ	\$200/GJ
\$40/GJ	\$840/GJ	\$80/GJ	\$40/GJ
\$10/GJ	\$810/GJ	\$50/GJ	\$10/GJ

Source: AEMC.

Setting the contract price limit requires judgement. A low limit could significantly reduce the revenue that flows through the SoLR mechanism and is recovered from gas users compared to the draft determination. It may still provide a small incentive for SoLR providers to respond during a tier 3 threat, however a smaller incentive carries some risk that it is insufficient to attract interest from potential SoLR providers. In contrast, a high limit for SoLR contract payments may risk market distortions and increase the costs that would then be recovered from gas users (see chapter 7).

The Commission considers a \$40/GJ contract price limit appropriate because under the current market settings, it doubles the revenue a SoLR provider would typically receive when the market is under significant stress and the APC applies, while materially reducing the risk of excessive costs or market distortions.⁵¹ Setting the maximum SoLR contract price at \$40/GJ also aligns with the SoLR principles and maintains incentives for AEMO to negotiate with tenderers for the most competitive contract terms feasible up to that price limit.

Compared to the draft rule, a consequence of a limit on the SoLR contract price is to reduce the extent to which SoLR payments vary depending on whether the service is provided in the DWGM, the STTM, outside the facilitated markets, or during a period when the APC applies. That is, under the final rule, the maximum potential revenue from a SoLR contract is \$40/GJ, regardless of the geographic location of the SoLR provider or the level of the facilitated market prices.

4.1.2 Annual aggregate spending limit on SoLR contract expenditure

The inclusion of an annual aggregate spending limit for AEMO’s SoLR costs differs from the draft rule. Under the draft rule, the \$35 million annual trading fund cap that applied to AEMO’s trading function was removed and replaced with a single total spending limit expressed on a per GJ basis.

Under the final rule, an annual spending cap of \$50 million on SoLR contracts will provide an overarching ‘budget’ for AEMO’s use of the SoLR mechanism, in addition to the contract price limit that applies on a per GJ basis. Together, the annual spending cap and contract price limit form the SoLR cost constraint.

An annual aggregate spending limit provides an additional safeguard against the cost impacts of any market distortions. However, setting the limit too low could prevent AEMO from using SoLR where doing so would be lower cost than load shedding. The Commission has therefore adopted a \$50 million annual spending cap, which it considers high enough to allow AEMO to procure material volumes of gas through SoLR, while still limiting the risk of cost blowouts. This balance is

⁵¹ Were the market settings to change, this may no longer hold.

supported by the \$40/GJ contract price limit, which is expected to reduce revenues flowing through the SoLR cost recovery mechanism compared to an \$800/GJ total limit.

To guide the decision on setting the annual spending limit for AEMO, we have calculated how many days of shortfall different limits could be addressed in the DWGM under the following scenario:

- Demand exceeds supply (without the SoLR) by 10 per cent of the average daily DWGM demand in winter 2022 (a particularly high demand year). That is, approximately 91 TJ/day.
- The \$40/GJ SoLR contract price limit is the maximum allowable amount AEMO is able to pay under the final rule, and in this scenario, it is assumed to be the amount paid by AEMO for each contract.
- There are sufficient SoLR providers willing to respond to meet the identified shortfall.

The table below provides options, including the current trading fund cap.

Table 4.2: Impact of different options for annual aggregate spending limit

Annual aggregate spending limit	Days of 10% exceedance of 2022 average winter demand in the DWGM addressed by SoLR
\$25 million	7 days
\$35 million	9.6 days
\$50 million	14 days

Source: AEMC.

On this basis, a \$50 million annual limit could address a significant and extended shortfall of around 14 days.⁵² The Commission considers this strikes an appropriate balance between providing AEMO sufficient headroom to procure SoLR services to address tier 3 threats, while providing a cap on the costs that can be recovered from gas users. On this basis, it contributes to the NGO by supporting enhanced reliability outcomes and principles of market efficiency. It also manages the potential cost of SoLR for gas users.

The Commission also considered whether to apply a limit to each SoLR event rather than an annual aggregate spending limit. A limit per SoLR event could reduce the risk that expenditure on one event may limit AEMO's ability to use SoLR later in the year. However, the final rule adopts an annual aggregate cap because it gives AEMO more flexibility to respond to events that may differ in size, duration and location without compromising other tools available to AEMO. The Commission considers the risk of exhausting the annual cap is acceptable, given SoLR is expected to be used sparingly and AEMO has a broader suite of tools available, including directions powers, if further action is required during a tier 3 threat.

In summary, under the final rule, when entering into and activating SoLR service contracts to address a tier 3 threat, AEMO must adhere to the SoLR cost constraint, which is:⁵³

- a contract price limit of \$40/GJ, which applies to each SoLR contract payment from AEMO to a SoLR provider, and
- an annual aggregate spending limit on SoLR contracts of \$50 million.

⁵² The number of days the SoLR annual spending cap may support is sensitive to underlying assumptions. In practice, contracts may be struck for less than \$40/GJ, or the magnitude of a shortfall could be higher or lower than the 10% of exceedance used in this analysis.

⁵³ Rule 699A of the final rule.

4.2 Scope of the SoLR cost constraint

4.2.1 Geographical scope

Consistent with the draft rule, the SoLR cost constraint (that is, both components) applies in all circumstances where the SoLR mechanism applies.

As discussed in section 4.4, the final rule provides that the mechanism would be available throughout the year and across the ECGS, including the DWGM and each STTM hub. This is because the Commission considers constraining SoLR to specific seasons or locations does not provide any significant advantages and may create unnecessary complexity in administration, limiting the usefulness of the mechanism (see section 4.4). Consistent with this, the SoLR cost constraint applies throughout the year and across the ECGS.

4.2.2 Application across service types and contracts

As discussed in chapter 3, the final rule (as with the draft rule) allows AEMO to use both supply-side and demand-side responses to alleviate a tier 3 threat. The SoLR cost constraint is relevant to both types of response. This enables AEMO to compare potential responses on a consistent basis and select the option, or combination of options, arising from the competitive tender process that addresses the reliability concern at least cost to consumers.

In response to the draft rule, AEMO sought clarification on how the SoLR price limit would apply across different service types. In particular, AEMO queried whether the limit applied only to the supply of gas, or also to associated services such as haulage, compression and storage.⁵⁴ The final rule clarifies that the \$40/GJ contract price limit applies to all types of services that AEMO may seek under a SoLR service contract.⁵⁵ AEMO is likely, wherever possible, to procure end-to-end SoLR services within a single contract, that is, each individual contract should deliver gas to, or reduce demand for gas at, the location of the identified threat. This includes the costs required to make gas available at the contracted location, such as haulage, compression and storage. The contract price limit applies on a per-GJ basis, including all relevant services and must also fit within the \$50 million annual aggregate spending limit.⁵⁶ Selecting an end-to-end service from the competitive tender process would be administratively efficient for AEMO.

However, the rule does not limit AEMO to end-to-end SoLR service contracts. There may be some cases where AEMO needs to procure services under separate SoLR contracts, for instance, through separate contracts for gas supply, transportation, storage or demand response. In those cases, the contract price limit would apply to each SoLR contract. As a safety net for gas users who will ultimately pay the SoLR contract costs, the annual aggregate spending limit would apply across all SoLR expenditure in the relevant year.

The Commission recognises that allowing AEMO to procure different service types through separate contracts could result in higher costs and disincentivise SoLR providers from offering end-to-end services. For example, under the final rule, AEMO would be able to contract for gas at up to \$40/GJ and its transport at up to \$40/GJ, totalling potentially \$80/GJ for delivered gas. However, this risk is mitigated by the SoLR principles, which require AEMO to consider the least distortionary and least-cost response. AEMO also retains the option to use other tools when SoLR contracts would not provide an appropriate or cost-effective response to the identified threat to reliability. In addition, if SoLR is used, AEMO would need to comply with the annual total spending

⁵⁴ Submission to the draft determination: AEMO, p 2.

⁵⁵ Rule 699A(3) of the final rule.

⁵⁶ While AEMO must not pay more than \$40/GJ per SoLR service contract, the competitive tender process should encourage bid prices to be less than the limit from which AEMO may negotiate with tenderers to strike a SoLR service contract.

limit of \$50 million. Having regard to these mitigating factors, the Commission considers the final rule approach preferable. It avoids unnecessary administrative complexity for AEMO (for example, setting the contract price limit to apply across multiple contracts along the supply chain) and gives AEMO the flexibility to negotiate the best price and procure the mix of services needed to address tier 3 threats.

In response to the draft rule, AEMO also sought further clarification on whether the SoLR price limit cost constraint applies per contract or in aggregate across multiple SoLR contracts established in response to the same for each tier 3 threat.⁵⁷ Consistent with the draft rule, the final rule applies the per-GJ cost constraint to each individual SoLR contract. If multiple SoLR providers are contracted to provide services to address the same threat, the contract price limit applies to each individual contract and AEMO should consider the annual aggregate spending limit. For example, AEMO could not contract for a price of \$60/GJ for one contract and \$20/GJ for another of the same size, such that they averaged \$40/GJ. Each individual contract must be less than \$40/GJ.⁵⁸

Consistent with the scope of the SoLR mechanism, the final rule SoLR cost constraint, which comprises a contract price limit and an annual aggregate spending limit, applies throughout the year and across the ECGS. The SoLR cost constraint applies consistently to supply-side and demand-side services. The \$40/GJ contract price limit applies to each individual SoLR service contract established to respond to a tier 3 threat. The annual aggregate spending limit applies across all of AEMO's SoLR contract expenditure in the relevant year.

4.3 Different payment approaches within a SoLR contract

The final rule gives AEMO discretion to agree to different payment approaches under SoLR supply contracts. This may include both fixed and per-GJ amounts for both supply and demand response services. Only one submission to the draft determination commented on this, and was supportive of giving AEMO flexibility to use availability payments to incentivise demand response in the SoLR tendering process.⁵⁹ In subsequent meetings, one stakeholder suggested different price limits could apply at establishment and activation. The Commission considers that the possibility of a fixed component helps to derisk the SoLR provider and gives AEMO discretion to choose the appropriate contract structure for the types of services that can be procured through the mechanism. This is particularly relevant where AEMO is contracting for availability or readiness to respond, for example to provide administered demand response, rather than only for gas ultimately delivered.

The \$40/GJ contract price limit will be assessed based on the aggregate per-GJ amount implied by the contract. This is calculated by reference to the maximum quantity available under the contract, rather than the volume ultimately delivered. For example, a contract struck with a \$100,000 availability payment and up to 5,000 GJ at a contract price of \$20/GJ will be within the \$40/GJ contract price limit (\$200,000 contract value to deliver 5,000GJ equals \$40/GJ). The Commission considers this approach gives AEMO the necessary flexibility to contract for the services that are required.

The Commission recognises that the realised average cost per GJ could exceed the \$40/GJ contract price limit if the contracted volume is not fully used. For instance, if only 1,000 GJ was

57 Submission to the draft determination: AEMO, p 2.

58 Rule 699A(2)(c) of the final rule.

59 Submission to the draft determination: APGA, p 5.

delivered the total contract cost would be \$120,000 (\$100,000 availability payment and \$20,000 in variable payments), or \$120/GJ ex-post.

However, the Commission considers that applying the limit based on expected volumes to be delivered would require AEMO to determine expected quantities of gas which would be complicated and costly to achieve. Instead, AEMO's value-for-money assessment should occur when it enters the contract, having regard to the likelihood and scale of the threat, the SoLR principles and the availability of alternative tools. The total expenditure under SoLR contracts would be added towards the annual spending cap, rather than the contract value. In the above example, this captures \$120,000 rather than \$200,000.

As noted above, under the final rule, AEMO has discretion to agree to different payment approaches under SoLR service contracts. Contracts may include both fixed and per-GJ amounts, subject to both components of the SoLR cost constraint – the per-GJ contract price limit and the total annual expenditure limit.⁶⁰

4.4 Governance arrangements for the cost constraint

4.4.1 Publishing the cost constraint

Consistent with the draft rule, the final rule sets out the SoLR cost constraint. In the draft determination, the Commission considered whether publishing the contract price limit could distort market behaviour and encourage prospective SoLR service providers to anchor their bids at, or just below, the limit. The Commission considered this risk would be mitigated by aligning the price limit to the MPC in the DWGM, rather than at a higher value closer to willingness to pay, and by AEMO's ability to use directions powers if SoLR bids did not represent a cost-effective response to a reliability threat. This is discussed in section 4.6.2 of the draft determination. Under directions, relevant participants would be compensated on a direct-cost basis, which should place downward pressure on SoLR bids and reduce the risk of price anchoring.

Most stakeholders did not comment on whether the price limit should be published, however APLNG considered that a published price limit could exacerbate anchoring risks.⁶¹

The final rule retains a published contract price limit and requires the annual aggregate spending limit to also be published. Although the final rule adopts a different SoLR cost constraint design comprising the two limits, the Commission considers the same reasoning applies as articulated in the draft determination and the risk of bid anchoring is small when considering the overarching design of the SoLR mechanism. In addition, a cost constraint that is not published could also reduce transparency and create uncertainty about the level of costs that AEMO may incur. Publishing both the contract price limit and the total expenditure limit of the cost constraint better supports clarity for industry participants and gas users, who ultimately bear SoLR costs.

4.4.2 Updating the SoLR cost constraint

The draft rule provided that the gas reliability committee (GRC), established under the ERSAA draft rule, would review the SoLR price limit as part of its periodic facilitated market settings review. While most stakeholders did not provide specific comments on the role of the GRC, two stakeholders supported the GRC undertaking periodic reviews to ensure the price limit remains fit for purpose.⁶² Origin also considered it prudent to review the draft rule price limit level following the execution of any SoLR contracts to ensure it is appropriate.⁶³

60 Rule 699A(3) of the final rule.

61 Submission to the draft determination: APLNG, p 3.

62 Submissions to the draft determination: APLNG, p 3; CS Energy, p 3.

The final rule does not retain the GRC oversight role. The Commission agrees that the SoLR cost constraint should remain fit for purpose over time. However, reviewing the final rule SoLR cost constraint requires judgement about how to balance the reliability benefits of a higher limit against the risk of higher costs and market distortions. Noting the focus and operation of the GRC (particularly that it is established for a six-month market settings review and does not have an ongoing role), the Commission has concluded that the task of reviewing the SoLR cost constraint is not well aligned with the GRC's role. Reviewing the final rule SoLR cost constraint is likely to require policy judgement that is more appropriately made by the Commission. Such a reassessment of the cost constraint can occur through a rule change process, which can be instigated by any party at any time.

However, there remains a need to keep the components of the cost constraint relevant over time. Having made the trade-off, the final rule provides for the SoLR cost constraint to be indexed annually using CPI. This provides a simple and predictable way to maintain the value of the cost constraint over time. If a more substantive change to the cost constraint is required in the future, the Commission should consider it in the context of the overall SoLR framework in response to a rule change request.

Under the final rule, both elements of the SoLR cost constraint will be updated annually using CPI to maintain the value of the cost constraint over time. AEMO will publish the adjusted contract price limit and the annual aggregate spending limit (together, the SoLR cost constraint) for a financial year no later than the commencement of each financial year.⁶⁴

4.5 Implications for cost recovery

The final design of the SoLR cost constraint provides a different and clearer approach on how SoLR payments made by AEMO interact with the SoLR cost recovery mechanism. Under the draft rule, the contract price limit applied to the total revenue associated with the SoLR service, including both the SoLR payment and any market revenue. However, the provider would not have received market revenue directly. Instead, market revenue would have been used to offset the SoLR costs recovered from gas users. As discussed in section 4.1.1 above, this approach created administrative complexity for AEMO managing settlement and cash flows.

Under the final rule, the SoLR contract price limit refers only to the SoLR contract payment made by AEMO to the SoLR provider. Any revenue earned through the facilitated market would be paid directly to the SoLR provider through normal market settlement. The SoLR cost recovery mechanism would then recover only the contract amount paid under the SoLR contract from the relevant ECGS participants.

This approach clarifies the cost recovery implications of the SoLR cost constraint. Relevant gas market participants would continue to pay market costs through the ordinary operation of the facilitated markets. Only the SoLR contract payment would be recovered through the SoLR cost recovery mechanism from 'relevant entities' in the location of the threat (see chapter 7).

Several stakeholders raised concerns about the recovery of costs incurred under the draft rule price limit (as noted, some stakeholders were concerned about the potential high cost). The Commission considers that the final design of the SoLR cost constraint should address most of these concerns. While not directly comparable, the final rule \$40/GJ contract price limit is likely to

63 Submission to the draft determination: Origin, p 3.

64 Rule 699A(4)-(5) of the final rule.

be low compared to the total price limit that applied in the draft rule. It should reduce the potential cost recovery impact on gas users and mitigate material market distortion risks.

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 that industry participants have failed to fully address.

The trigger refers to AEMO’s operational decision on whether to activate gas supply or administered demand response services under a SoLR contract it has established. Its functionality reflects broader choices about the design of a SoLR mechanism. 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 draft rule on preconditions and triggers
- Section 5.2 Stakeholders provided feedback to the draft determination
- Section 5.3 Responding to an additional suggestion raised by stakeholders
- Section 5.4 Description of the final policy position and final rule

The Commission’s final rule includes an additional precondition, being the ability for AEMO to convene a gas reliability and supply adequacy conference following a tier 3 threat being declared. Apart from this, the preconditions and trigger are unchanged from the draft determination and draft rule.

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

Box 3: Final rule on preconditions and trigger

The final 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. AEMO can also convene a gas reliability and supply adequacy conference. Following this, AEMO can commence the tendering steps for its SoLR mechanism.

AEMO would also indicate the latest practicable time for an industry response to occur under the ERSAA final rule. The final 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, exercise its functions as supplier of last resort.

The final rule differs from the draft rule by including an additional precondition that AEMO can convene a reliability and supply adequacy conference for the purpose of assessing whether to commence preparatory steps for SoLR.

5.1 Draft rule on preconditions and triggers

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.⁶⁵

65 Sections 91AD(2) and 91AF(2) of the NGL.

AEMO must consider the supply of and demand for natural gas (and may consider any impact that covered gases could have)⁶⁶ and can use the trading fund to the extent AEMO considers it necessary or desirable.⁶⁷

To address the issue that the NGL framework did not provide sufficient guidance, the draft rule provided additional preconditions and trigger for AEMO. The draft rule relied on the risk or threat signalling framework (as provided in the ERSAA draft rule) as the precondition to allow AEMO to tender for SoLR services. The framework introduced three tiers for classifying identified risks or threats, reflecting the degree of market response required to mitigate or prevent them. Tier 3 represented 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.⁶⁸

The draft determination outlined that if 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.⁶⁹ 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.⁷⁰

AEMO would specify 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 threat is notified, will have the necessary information and expertise to determine this time. To support well-informed decision-making, the ERSAA draft rule required AEMO to review the response time estimate and publish any revisions as soon as practicable.⁷¹

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 and aligns with the last resort nature of the SoLR mechanism. It means that AEMO can use another function if it is more appropriate.

5.2 Stakeholders provided feedback to the draft determination

In response to the draft determination, stakeholder feedback broadly accepted the preconditions and trigger. Stakeholders commented on:

- The use of a tier 3 threat as a precondition for SoLR
- The lapse of the last practicable time as the trigger for SoLR.

5.2.1 Stakeholders accepted the use of a tier 3 threat as a precondition for SoLR

In their submissions to the draft determination, stakeholders generally accepted the use of a tier 3 threat as a precondition for SoLR. The sentiment is as follows:

66 Rule 681A(2) of the NGR.

67 Rule 708 of the NGR.

68 ERSAA draft rule, Part 27 Division 3A and Division 4.

69 AEMC, *Supplier of last resort mechanism*, draft determination, pp 40-41. Also see ERSAA draft rule 696A.

70 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.

71 ERSAA draft rule 696A(2).

- Five stakeholders acknowledged that a clear and objective trigger is required for the SoLR mechanism so that market participants have transparency and certainty about its potential utilisation.⁷² It would also signal potential supply shortfalls to the market.⁷³
- In the absence of a reliability standard, stakeholders accepted that linking the establishment and activation of the SoLR mechanism to the tiered risk or threat signalling framework is a workable alternative.⁷⁴ This means that the tiered risk framework performs a materially more important role in constraining when SoLR may be established and activated.⁷⁵
 - Subject to the risk or threat signalling procedures, the initial view is that a tier 3 threat level could be a suitable trigger for the SoLR mechanism, because it will 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).⁷⁶
 - Two stakeholders noted that their support for the proposed threat-signalling protocol acting as the SoLR mechanism trigger is contingent on it applying to operational timeframes only, so that it reduces the risk of premature threat declarations and ill-timed AEMO interventions.⁷⁷
- Stakeholders supported the introduction of a probabilistic tiered risk signalling framework as a clear means to escalate / de-escalate an RSA threat, depending on the severity of the threat and response from market.⁷⁸
- Alinta submitted that, consistent with a market-first approach, the SoLR mechanism should be exercised only after the market has had a reasonable opportunity to resolve emerging supply risks through commercial responses. This requires that tier escalation be informed not only by the existence of forecast supply gaps, but by the degree of confidence that can reasonably be placed on those forecasts (of both supply and demand) at the time the assessment is made.⁷⁹
 - This is because forecast inputs used to assess supply shortfalls, including PASA (including the existing electricity PASA), GSOO and notices of closure can change as market conditions evolve and this should not drive premature SoLR activation.⁸⁰
 - The final rules should explicitly provide sufficient discretion in tier assessments to prevent early escalation in circumstances where market-based solutions remain viable. In doing so, the Commission should give due consideration to the approach adopted in the ECGS PASA final rule when developing the final SoLR framework.⁸¹
- Alinta also noted there is a potential conflict of interest in allowing AEMO to set the criteria that may trigger its own intervention powers, which means that industry should be jointly involved in the development of detailed assessment and risk or threat classification procedures to mitigate the potential conflict of interest and ensure risk classifications reflect operational and market realities.⁸²

72 Submissions to the draft determination: APLNG, p 2; Origin, p 1; CS Energy, p 2; Squadron Energy, p 1; AEP, p 1.

73 Submissions to the draft determination: APA, p 3; Origin p 1.

74 Submissions to the draft determination: AEMO, p 2; CS Energy, p 2; Squadron Energy p 1; AEP, p 1.

75 Submission to the draft determination: AEMO, p 2.

76 Submissions to the draft determination: APLNG, p 2; Origin, p 1.

77 Submissions to the draft determination: APLNG, p 2; Origin p 1.

78 Submissions to the draft determinations: CS Energy, p 2; Squadron Energy, p 1; AEP, p 1.

79 Submission to the draft determination: Alinta, p 3.

80 Submission to the draft determination: Alinta, p 3.

81 Submission to the draft determination: Alinta, p 3.

82 Submission to the draft determination: Alinta, p 3.

- EnergyAustralia noted that there is a need for substantive content to “adequate industry response” in rule 680, including the types of actions and timeframes that constitute a sufficient market response.⁸³

5.2.2 Stakeholders accepted the lapse of the last practicable time as the trigger for SoLR

Two stakeholders provided feedback on the lapse of the last practicable time as the trigger for SoLR, stating:

- AEMO noted that it is important to ensure 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 AEMO’s decisions.⁸⁴ This is because it will have to complete a qualitative threat assessment rather than a defined risk-cost trade-off under a reliability standard.⁸⁵
- CS Energy, in supporting the trigger, cautions that participants should be allowed ample time to resolve threats organically.⁸⁶ It also noted that it is important for AEMO to retain the discretion not to trigger the mechanism where there are suitable grounds to avoid its use.⁸⁷

5.3 Responding to an additional suggestion raised by stakeholders

In response to the draft determination, it was suggested that the preconditions should include a gas reliability and supply adequacy conference prior to AEMO deciding to use SoLR, to help inform its conclusion that the market response has been inadequate.⁸⁸ The conference would allow AEMO to consult and share information with industry about actual or potential risks or threats.⁸⁹ This would also provide industry with greater confidence in AEMO’s exercise of the SoLR and help facilitate a market-led response ahead of any other interventions.⁹⁰

5.4 Description of the final policy position and final rule

The Commission, in making the final rule, views the preconditions as the starting point of AEMO’s preparation to potentially intervene in the market to address a threat to the reliability or adequacy of the supply of covered gas within the ECGS, that the market has failed to address.

The preconditions provide the opportunity for industry participants to respond to a threat before AEMO considers taking steps to intervene to address the threat.

In practice, this may look like:

1. **PASA may identify a threat:** A threat to reliability or supply adequacy in the east coast gas system can be identified following informational inputs from PASA.
 - As noted in the ERSAA final determination, assessment and classification under the risk or threat signalling framework will use the outputs of PASA, which is run on a daily (ST) and weekly (MT) basis, irrespective of this requirement.
 - The assessment and classification of a risk or threat is only required in relation to identified risks or threats – i.e. an identified supply shortfall.

83 Submission to the draft determination: EnergyAustralia, p 3.

84 Submission to the draft determination: AEMO, p 2.

85 Submission to the draft determination: AEMO, p 2.

86 Submission to the draft determination: CS Energy, p 2.

87 Submission to the draft determination: CS Energy, p.2.

88 Submission to the draft determination: EnergyAustralia, p 3.

89 Submission to the draft determination: APGA, p 4.

90 Submission to the draft determination: APA, p 3; Origin, p 2.

- AEMO will undertake assessment and classification of identified risk or threat at least weekly.
2. **The threat then being classified as tier 3, meeting the precondition for SoLR:** AEMO classifies a risk or threat as tier 3 and then publishes a notice.⁹¹ This is a precondition that allows AEMO to potentially consider using SoLR, should it be the appropriate mechanism to address the threat.
 3. **AEMO communicates the latest practicable time for a market response:** As soon as reasonably practicable, AEMO will also provide a notice that specifies the latest practicable time by which an adequate market response is required to mitigate that risk or threat, before AEMO may need to intervene. The final rule enables AEMO to contract for SoLR services after a tier 3 threat alert when a notice about the latest practicable time for an adequate response has been provided,⁹² so that the market has every adequate chance to respond.
 4. **AEMO convene a gas reliability and supply adequacy conference:** At this time, AEMO can also convene a conference, for the purposes of obtaining information to assess the need to use SoLR for a tier 3 threat.⁹³
 5. **AEMO commences tendering for SoLR:** If the threat persists and AEMO considers that SoLR may be a mechanism that can address the threat, it can commence tendering for the appropriate service under SoLR. At this time, AEMO is continually assessing whether there is an alternative means of addressing the threat and it is not a mandatory obligation to use SoLR.⁹⁴
 6. **A lapse of the latest practicable time allows AEMO to potentially trigger SoLR:** If there has been no adequate response from industry and the latest practicable time has passed, AEMO can (but is not required) to trigger SoLR.⁹⁵

More details on the precondition and trigger are provided below.

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

Preparatory steps for SoLR are allowed when tier 3 is reached

Consistent with the draft rule, the final rule allows AEMO to commence tendering for SoLR services when a threat to reliability or supply adequacy in the ECGS reaches tier 3 of the risk or threat signalling framework. Linking the establishment of the SoLR mechanism to the tiered risk or threat signalling framework is suitable, because it will correspond to the most severe system threats, and it is only in these extreme circumstances SoLR should be contemplated (on the condition that market response is inadequate). As noted above, this approach was recognised and accepted by several stakeholders.⁹⁶

The risk or threat signalling framework requires AEMO to assess and classify all identified risks or threats in accordance with the published procedures, which will be developed in consultation with industry. This approach enables industry participants to respond to forecast supply shortfalls in a timely and proportionate manner, reducing the need for out-of-market interventions. One stakeholder noted that conservative interpretations of forecast data could drive premature SoLR

91 Rule 695 of the ERSAA final rule.

92 Rule 696A(4) of the ERSAA final rule.

93 Rule 692(1)(d) of the final rule.

94 Rule 699I of the final rule.

95 Rule 699J of the final rule.

96 Submissions to the draft determination: AEMO, p 2; CS Energy, p 2; Squadron Energy, p 1; AEP, p 1; APLNG, p 2; Origin, p 1.

activation, as forecast inputs used to assess supply shortfalls are inherently uncertain and subject to change as market conditions evolve.⁹⁷

We consider that a tier 3 threat is an appropriate precondition that is sufficiently severe to allow AEMO to commence tendering for SoLR services. AEMO also retains the ability to use or not use its SoLR functions, meaning it is not required to use SoLR even if a tier 3 threat has been reached. This aligns with feedback from stakeholders that the final rule should provide sufficient discretion to prevent early escalation to intervention in circumstances where market-based solutions remain viable.⁹⁸

In making the final rule, the Commission has considered stakeholder comments that the threat-signalling protocol should only apply to operational timeframes, rather than the proposed 12 months, to reduce the risk of premature threat declarations and ill-timed AEMO interventions.⁹⁹ The timeframe will be consistent with the informational inputs of the PASA final rule, and align with its timing horizon. This will provide greater clarity and consistency that accounts for real-time fluctuations of supply and demand in the ECGS,¹⁰⁰ as PASA is a key informational input into ERSAA. Using both likelihood and severity to accurately classify a risk or threat allows for flexibility and signals the need for a market response. This is better aligned to the dynamic nature of the gas market, than a single metric.¹⁰¹

The Commission considers that the tier 3 threat classification is a robust precondition for SoLR and, if it were limited to a particular timeframe, would not be flexible enough to cater to a market-first approach that many stakeholders preferred.¹⁰² It is complemented by the latest practicable time, which will clearly communicate to the market the last date for an adequate response. A time-based trigger provides a clear, predictable final warning for participants to respond. This is because it will signal to the market that there is a threat to reliability or supply adequacy that should be addressed and that AEMO may (but is not required to) tender for SoLR services if it is the most appropriate tool.

Our final rule sets out the precondition that must be satisfied before AEMO can decide to use the supplier of last resort function. This means that allowing AEMO to commence its tender process at this point balances transparency, flexibility and potential costs. The Commission considers the final rule provides sufficient guidance to AEMO or market participants about when and how this function should be exercised, which is consistent with promoting the NGO. Greater clarity and certainty regarding responses to a threat to reliability and supply adequacy support the reliable operation of the ECGS for the benefit of gas consumers.

AEMO may hold a Gas supply adequacy and reliability conference after a tier 3 threat has been reached

Under the ERSAA final rule, AEMO may convene a conference of relevant entities in relation to the reliability or adequacy of the supply of covered gas within the east coast gas system, for the purpose of:¹⁰³

- assessing whether there is or is not an actual or potential risk or threat to the reliability or adequacy of the supply of covered gas within the east coast gas system, including the likelihood of the threat occurring

97 Submission to the draft determination: Alinta, p 3.

98 Submission to the draft determination: Alinta, p 3.

99 Submissions to the draft determination: APLNG, p 2; Origin p 1.

100 Submission to the draft determination: Alinta, p. 3

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

102 Submissions to the draft determination: Alinta, p 3; CS Energy, p 2; Squadron Energy, p 1; AEP, p 1; APLNG, p 2; Origin, p 1.

103 Rule 692(1) of the ERSAA final rule.

- signalling the need for an industry response to an identified risk or threat actual or potential threat
- obtaining information for the assessment and classification of an identified risk or threat under rule 694A on the nature and extent of an actual or potential threat.

If AEMO convenes a conference, then it must issue a notice to communicate relevant details to the market.¹⁰⁴

The final rule expands the scope of the gas reliability and supply adequacy conference outlined above, so that it can be used for the purpose of SoLR, based on feedback from stakeholders.¹⁰⁵ This means that AEMO can use a conference to obtain information to assess the need to use SoLR for a tier 3 threat. The Commission agrees that the conference will improve transparency, because industry and AEMO can collaborate to understand the threat to reliability and suitability of SoLR as a potential intervention to address the threat.

The conference is not a mandatory precondition, as this would undermine the need for flexibility. The Commission understands that, in practice, AEMO will communicate and collaborate with industry throughout all stages of the risk or threat process, including for any potential SoLR intervention.

This aligns with the ERSAA final rule, without imposing unnecessary complex processes, given the risk or threat signalling framework and associated notices. It is 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.

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

Consistent with stakeholder feedback, the ERSAA final 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.¹⁰⁶ 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.¹⁰⁷

Under the final rule, AEMO sets 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. This is complemented by the ERSAA final rule that requires AEMO to review the response time estimate and publish any revisions as soon as practicable.¹⁰⁸ It also enhances the transparency and predictability of AEMO's use of its ECGS trading function.

The latest practicable time will be set so that participants should be allowed ample time to resolve threats organically.¹⁰⁹ AEMO's communication of this time under the notice, will include information about the type of industry response that is needed.¹¹⁰ This means that AEMO

¹⁰⁴ Rule 692(2)-(3) of the ERSAA final rule.

¹⁰⁵ Submissions to the draft determination: APA, p 3; Origin p 2; EnergyAustralia, p 3; APGA, p 4.

¹⁰⁶ Rule 696A of the ERSAA final rule. Also see stakeholder submissions to the ERSAA draft determination.

¹⁰⁷ 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.

¹⁰⁸ Rule 696A(2) of the ERSAA final rule.

¹⁰⁹ Submission to the draft determination: CS Energy, p 2.

¹¹⁰ Submission to the draft determination: AEMO, p 2.

expectations of participants will be communicated clearly and transparently before AEMO can consider triggering SoLR.

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.

The Commission maintains that 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 has a clear temporal link, that is sufficiently robust to provide guidance to AEMO and industry. It allows the allocation of risk 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.

5.4.3 AEMO retains discretion to not use SoLR

Consistent with the draft determination, the final rule preserves AEMO's 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 commence the preparatory steps for SoLR (for example, commence a competitive tender process for a SoLR service contract).
- If AEMO publishes a notice outlining the last practicable time for intervention, and that time has subsequently lapsed, then AEMO may trigger the use of the SoLR mechanism (for example, exercising an option to use an established SoLR service contract).

Stakeholder submissions indicated that it is important for AEMO to retain the discretion not to trigger the mechanism where there are suitable grounds to avoid its use.¹¹¹ This also aligns with the need to preserve sufficient flexibility due to the inherent uncertainty in the way that market conditions. It means that allowing AEMO to commence its tender process at this point balances transparency, flexibility and potential costs.

The Commission considers the final rule balances the need for sufficient guidance to AEMO and industry participants about when and how this function should be exercised, against the need for flexibility for a market led response to occur. In turn, this reinforces the 'last resort' nature of the mechanism. This means that participants have the opportunity to address the threat first, before AEMO considers whether to intervene. When market response is inadequate and the threat persists, even after applying any other possible tools available to AEMO, then AEMO may consider using its ECGS trading function, by using SoLR.

111 Submission to the draft determination: CS Energy, p 2.

6 Operating SoLR

This chapter sets out how the SoLR mechanism operates once a tier 3 threat has been identified and communicated under the tiered risk or threat signalling framework. The chapter explains the operational decision points and sequencing that apply to both supply-side and demand-side responses under SoLR, including:

- Section 6.1 Outlining the draft rule on operating SoLR
- Section 6.2 Stakeholders provided feedback on the operational design of the SoLR
- Section 6.3 Outlining the SoLR operational design features that remain consistent with the draft rule
- Section 6.4 Relinquishing SoLR services
- Section 6.5 SoLR as a last resort tool
- Section 6.6 Activating SoLR in and out of the facilitated markets
- Section 6.7 Changes to information in procedures

The final rule is largely consistent with the draft rule, however includes some changes to how AEMO activates the SoLR within the facilitated markets and the requirement for SoLR procedures.

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

Box 4: Final rule on SoLR operations

The final rule:

- requires AEMO to consider other tools available to it before commencing the tender process and again before activating any SoLR contract
- requires AEMO to use assessment criteria in determining whether and how to respond to a tier 3 threat, including when evaluating tenders and deciding whether to activate a SoLR contract
- limits AEMO's procurement of SoLR services to a competitive tender process and does not allow AEMO to buy or sell gas directly in the facilitated markets for SoLR purposes
- requires AEMO to publish information as part of the tender rules relating to contract terms, assessment and eligibility criteria, and other related matters
- provides flexibility to enable AEMO to activate the SoLR within the facilitated markets using existing market mechanisms
- includes obligations for AEMO to relinquish services, rights or entitlements under a SoLR service contract upon request, with certain exceptions.

The final rule is different from the draft rule by:

- providing greater flexibility to AEMO in the method it uses to activate the SoLR, in the facilitated markets
- moving some of the operational requirements that were proposed to be in AEMO procedures to the tender process rules.

6.1 Draft rule on operating SoLR

The draft rule required AEMO to use a competitive tender process for establishing a SoLR service contract and assessment criteria to evaluate tools to alleviate the threat. It also required AEMO to run through specified operational steps prior to activating the SoLR.

In this context, “activation” of the SoLR contract involves calling on the contracted service provider to deliver the SoLR service, which may include measures such as reducing demand, submitting injection offers into a facilitated market, or otherwise taking actions to make gas available to consumers.

The draft rule responded to the key operational issue, as outlined in the draft determination, of how to operate the SoLR mechanism in a manner that is minimally invasive to gas market operations while still ensuring reliable supply to consumers.

6.2 Stakeholders provided feedback on the draft rule

Stakeholders broadly supported many of the operational features of the SoLR in the draft rule, including the following key design aspects:

- using a competitive tender process for establishing a SoLR service contract¹¹²
- requiring AEMO to use assessment criteria to evaluate the most suitable tool to alleviate the identified threat
- operational steps AEMO must run through, including consideration of other tools, prior to activating the SoLR.

AEMO raised concerns about the draft rule’s procedural requirements and requirements for activating the SoLR within the facilitated markets. It also sought greater clarity on how to activate the SoLR outside the facilitated markets. This is explored in greater detail in later sections of this chapter.

6.3 The SoLR operational design remains consistent with the draft rule

The final rule remains consistent with the draft rule in several areas which are detailed below. These are:

- the steps to establish and use a SoLR contract
- using competitive tendering.

Changes to the procedural requirements are detailed at the end of this chapter and in chapter 9 of this determination.

6.3.1 Steps to establish and use a SoLR contract

The final rule sets out steps AEMO must take before it can establish a SoLR contract or activate a SoLR contract to address a threat. These steps are intended to provide a clear process and reinforce the last resort nature of the mechanism by embedding multiple checkpoints at which AEMO reassesses whether SoLR remains the most appropriate response. This competitive tender process is the only route for AEMO to enter into a SoLR contract.

Consistent with the draft determination, the steps include:

1. AEMO must consider other functions to evaluate whether an alternative to SoLR would best address the threat.

¹¹² Submissions to the draft determination: Origin, p 3; EUAA, p 1; APGA, p 5.

2. If AEMO determines that no other functions are suitable at this stage, then AEMO may start a competitive tender process
3. Publish the tender eligibility criteria and information for the market on the steps AEMO is taking through the tender process.
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.
7. Assess again the most suitable measure to address the tier 3 threat. 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.

The Commission considers this operational sequence promotes reliability outcomes at an efficient cost by requiring AEMO to evaluate alternatives and maintain transparency about the decision path to establishment and activation.

AEMO must consider other options first

The final rule positions SoLR as one of a suite of tools available to manage reliability and supply adequacy threats in the ECGS. It is intended as a last resort mechanism and should not supplant existing market mechanisms or other functions where those tools can address the identified threat more effectively or with less distortion.

Consistent with the intent of the rule change request, the final rule requires AEMO to consider other functions and tools available to it before commencing the tender process and again before activating a SoLR contract. This requirement supports proportionate intervention and ensures AEMO responds using the most appropriate tool to alleviate the threat.

The draft determination also recognised the interaction between the ECGS and the national electricity market (NEM), including the links created by gas-powered generation, and the final rule preserves the requirement for AEMO to take into account AEMO's other functions in responding to a threat (including its functions under the NEL and NER).¹¹³

The Commission is satisfied requiring AEMO to consider other functions before tendering for and activating SoLR contracts supports the provision of reliable and secure energy at an efficient cost to consumers and reinforces the policy intent of SoLR as a last resort. Likewise, the rule reinforces good regulatory practice by supporting decision-making with clear guidance that provides predictable, understandable outcomes.

The Commission's draft determination also explains that 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 final rule preserves this framework, consistent with the requirement to consider other options first and the overall intervention hierarchy.

¹¹³ Rule 699H of the final rule and definition of 'AEMO's other functions' in rule 680, referring to 'statutory functions' as defined in the NGL.

6.3.2 Competitive tendering is the sole procurement pathway

When a tier 3 notice is issued, the final rule enables AEMO to tender for and establish one or more SoLR service contracts for services to address the threat. The final rule limits AEMO to the competitive tender pathway for SoLR contracts. This means AEMO will not buy or sell gas directly in the facilitated markets using the SoLR and will instead contract with another party (or parties) through a tender process to procure demand and/or supply-based gas services on AEMO's behalf.

This approach was supported by a majority of stakeholders in response to the draft determination.¹¹⁴

The Commission considers this approach reduces the risk of unnecessary direct market intervention by AEMO and avoids the need for it to establish transport contracts or take title of gas itself. This ensures AEMO can procure an end-to-end service for the delivery of supply to the location of the shortfall (or wherever else it deems appropriate to alleviate a tier 3 threat) or procure a group of services that could work together to address the identified threat. The Commission considers contracting with third parties is the most efficient and effective way to use SoLR without creating market distortion.

In addition, using a competitive tender process provides an environment in which bids to AEMO may include prices below the SoLR contract price limit of \$40/GJ. This aligns with the objective of constraining AEMO's SoLR costs and limiting the financial impact of the mechanism on gas users. See chapter 4 for details about the SoLR cost constraint.

Assessment criteria will support AEMO's tender decisions

As outlined in the draft determination, the Commission considers it is appropriate for AEMO's key decisions in operating SoLR to be guided by clear criteria, both when selecting contracts through a tender process and when determining whether to activate a contract or use an alternative tool.

Accordingly, the draft rule specified that AEMO develop assessment criteria and include those in the SoLR tender process rules it will provide at the commencement of a competitive tender process. Stakeholders did not comment on this aspect of the draft rule and draft determination.

The Commission remains of the same view, therefore, the final rule requires AEMO to include assessment criteria as part of the tender process rules, and requires the assessment criteria to be consistent with the SoLR principles.¹¹⁵ The assessment criteria should support a transparent, predictable approach and ensure AEMO considers the relevant factors in making decisions that may affect both gas and electricity consumers.

As detailed in the draft determination, the Commission considers, 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
- the response dependencies - how dependent the SoLR service is on other services
- the impact of the SoLR service on gas and electricity consumers.

This rule will contribute to achieving the NGO because it 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. Further, it reduces the risk of AEMO crowding out market participants.

¹¹⁴ Submissions to the draft determination: Origin, p 3; EUAA, p 1; APGA, p 5.

¹¹⁵ Rule 699G(i) of the final rule.

6.4 Relinquishing SoLR services

The draft rule included 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 was similar to the approach proposed in the rule change request.

6.4.1 Stakeholders provided feedback on the design of the relinquishment mechanism

As noted in the draft determination, stakeholders generally support the concept of relinquishment, but did not have a uniform view on the extent to which AEMO should be required to relinquish.¹¹⁶

In its submission to the draft determination, Origin stated it “generally support[s] the relinquishment framework set out in the Draft Rule”, noting it may mitigate the risk of crowding out market-led procurement.¹¹⁷ Noting the draft rule left further details to be defined in AEMO’s procedures, Origin suggested “it would be helpful to work through potential scenarios where AEMO would not relinquish services during the procedure consultation process”.¹¹⁸

6.4.2 The final rule includes a relinquishment mechanism

The final rule maintains the relinquishment mechanism in the draft rule that enables relevant entities to request AEMO to relinquish services, rights or entitlements available under a SoLR service contract, with certain exceptions. For example, if AEMO considers the request may be inconsistent with the SoLR principles or limit the ability to address the tier 3 threat.

The Commission recognises the feedback provided by Origin. It considers the ECGS procedures and the Wholesale Market Operation Procedures (Victoria) would likely provide a strong foundation for any procedures that AEMO develop, and notes where AEMO makes procedures for relinquishment it should take this feedback into account as part of the consultation process.

Therefore, this rule contributes to the achievement of the NGO by supporting efficient market outcomes and reducing the risk of crowding out, while maintaining operational flexibility for AEMO to manage system risks. Further detail on the operation of the relinquishment mechanism is provided in the draft determination, and may be specified in the ECGS Procedures.¹¹⁹

6.5 SoLR as a last resort tool

The draft determination outlined the Commission’s position that 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.¹²⁰

6.5.1 Stakeholders agreed SoLR should be a genuine last resort

Stakeholders reiterated that the SoLR must be a genuine last resort mechanism.¹²¹

116 AEMC, *ECGS supplier of last resort mechanism*, draft determination, 26 February 2025, pp 63-64.

117 Submission to the draft determination: Origin, p 6.

118 Submission to the draft determination: Origin, p 6.

119 AEMC, *ECGS supplier of last resort mechanism*, draft determination, 26 February 2025, pp 53-54.

120 AEMC, *ECGS supplier of last resort mechanism*, draft determination, 26 February 2025, p 56.

121 Submissions to the draft determination: APA, p 6; EUAA, p 3.

APGA expressed that the SoLR “should only be triggered if a market notice fails to prompt a market response to a particular threat”.¹²² APGA further recommends the final rule “set a positive obligation for AEMO to consult with industry and demonstrate there are no reasonable alternatives ahead of activating the SoLR mechanism”.¹²³

The Commission has taken this feedback into account in designing the final rule, and notes the latest practicable time included in the risk and threat signalling framework would be the opportunity in which AEMO would highlight that the market has failed to act.

6.5.2 The final rule requires SoLR gas to be last

The final rule requires AEMO to consider the ability of market responses and AEMO’s other functions to alleviate a shortfall first.¹²⁴

Following this process, if AEMO activates a SoLR contract for gas to be supplied into the DWGM, the final rule requires SoLR gas to be last after all other market offers that would mitigate the tier 3 threat are scheduled.¹²⁵ In the STTM, while AEMO has flexibility in how to arrange for the SoLR service supplier to supply gas to a gas hub, it may use the same process used for contingency gas.¹²⁶ This is discussed further in section 6.6.3.

6.6 Activating SoLR in and out of the facilitated markets

In response to AEMO’s feedback on the draft rule, the Commission has amended the drafting to provide AEMO with more flexibility in how it activates the SoLR. Feedback from stakeholders and the changes from the draft to the final rule are detailed below.

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.

6.6.1 Outlining the draft rule to activate SoLR

The draft rule set out a framework for how gas provided under a SoLR contract would be supplied into the STTM, DWGM and into the ECGS in other locations.

For the STTM, the draft rule specified that the SoLR service provider would bid or offer gas into the ex ante market schedule, as an STTM market participant would, for the gas day. AEMO would not use this SoLR gas offer unless:

1. all available trading participant ex ante offers and ex ante bids have already been scheduled (but allowing for rounding to whole GJs)
2. the ex ante market price in the ex ante market schedule would otherwise have been at MPC.

For the DWGM, the draft rule stated AEMO could:

1. include the quantity to be injected in the applicable operating schedule and, where applicable, pricing schedule or
2. use other means available to it to arrange for the injection of gas by a SoLR service supplier or sourced from a SoLR service contract.

¹²² Submission to the draft determination: APGA, p 1.

¹²³ Submission to the draft determination: APGA, p 4.

¹²⁴ Rules 696B and 699H of the final rule.

¹²⁵ Rule 206A(2) of the final rule.

¹²⁶ Rule 450A(4) of the final rule.

This was intended to have the gas sourced from a SoLR service contract included in the ex ante market schedule at a price equal to the DWGM's MPC (VoLL).

For the remainder of the ECGS, outside the facilitated markets, the draft rule did not specify how the activation process would work. The draft determination, however, noted as part of the tendering and contracting process, the bidder and AEMO would determine how the SoLR service provider would activate gas outside the facilitated markets, taking into account location, magnitude, timing and other factors.

6.6.2 Responding to feedback on activating the SoLR

AEMO expressed concerns in its submission that the draft rule would create unnecessary system changes if SoLR gas were scheduled outside existing market processes. It considered SoLR quantities "should be incorporated through existing market scheduling and clearing arrangements ... rather than requiring AEMO to 'inject' SoLR bids/quantities into the scheduling system".¹²⁷ AEMO stated the draft rule "would likely require changes to the market clearing engine, resulting in material implementation complexity and cost".¹²⁸ No other submissions commented on this issue.

The AEMC has worked closely with AEMO since the draft determination to resolve this issue and design an alternative way of activating the SoLR in the facilitated markets to minimise the need for changes to AEMO's systems and the dispatch engine.

The final rule, which is outlined below, incorporates changes that address AEMO's concerns while maintaining the policy intent of the draft rule, which is that SoLR gas must be used after all other offers of gas supply to the market are exhausted.

6.6.3 AEMO will use existing systems to include SoLR gas last in the facilitated markets

The final rule differs from the draft rule. In the STTM, AEMO will be able to leverage systems associated with the contingency gas mechanism to include SoLR gas after all other market offers. In the DWGM, AEMO can manually include SoLR gas last, using a process similar to that for injecting gas under the Dandenong LNG storage arrangements. Outside the facilitated markets, no arrangements are prescribed (consistent with the draft rule).

Procedures for SoLR gas in the STTM

The final rule enables AEMO to activate SoLR gas through the contingency gas (CG) dispatch process.¹²⁹ The change has removed much of the prescription in the draft rule governing the method of activation, giving AEMO more flexibility in how it incorporates SoLR gas into the STTM.

As a result of this flexibility, AEMO can incorporate SoLR gas within the CG process once CG offers are exhausted. This will result in SoLR gas moving into the STTM last, after market offers, to limit market distortion. Employing this method has no impact on the STTM market price. However, this does not mean SoLR gas is considered to be CG under the NGR nor subject to the same benefits as CG. Rules and procedures that apply to CG do not apply to SoLR gas.

AEMO advised, following its submission, this method is likely to be achievable in activating SoLR gas in the STTM. In addition to being a workable method it does not require any IT or systems changes for the STTM, which means this approach has very little implementation costs or impact on STTM market participants and gas users.

¹²⁷ Submission to the draft determination: AEMO, p 2.

¹²⁸ Submission to the draft determination: AEMO, p 2.

¹²⁹ Rule 450A of the final rule.

As this approach relies on AEMO using a manual process to bring SoLR gas into the STTM by using the CG system, it will incur some costs when the process is used. However, these costs are not expected to be material and as SoLR is likely to be used infrequently, they will not arise often. The Commission is also satisfied the benefits of this new aspect to the final rule outweigh the costs.

The final rule allows for SoLR gas to be activated via inclusion in the CG stack, but does not mandate this. This provides the flexibility for AEMO to have SoLR gas come in directly through ex-post schedules on the day, in the event that AEMO does not have time to use the CG stack.

Procedures for SoLR gas in the DWGM

For the DWGM, the final rule has made minor adjustments from the draft rule to acknowledge AEMO will likely manually include SoLR gas in scheduling rather than having it included by its market bid. Under this method, AEMO is not expected to incur any material implementation or operational costs. Similar to the discussion above regarding the STTM, the Commission considers the immaterial potential costs from this methodology of using SoLR gas in the DWGM will be outweighed by the potential benefits.

The final rule also removes the requirement in the draft rule for SoLR gas to be included at the applicable market price cap (referred to as the VoLL in the DWGM rules). As SoLR gas must be included last,¹³⁰ there is no need to include further restrictions on price.

Procedures for SoLR gas outside the facilitated markets

Consistent with the draft rule, the final rule does not specify how AEMO is to activate SoLR gas outside the facilitated markets. The draft and final rules only specify how SoLR gas is to be activated in the STTM and DWGM, as discussed above.

As outlined in the draft determination, activation of this gas will be determined as part of the contract negotiations. In this way, the bidder and AEMO would determine how the SoLR service provider would activate gas outside the facilitated markets taking into account location, magnitude, timing and other factors.

6.7 Changes to information in procedures

The draft rule required AEMO to develop and consult on procedures which would provide more detail on how AEMO would operate the SoLR with respect to tendering, demand response verification, contracting and many other processes. In response to AEMO's feedback on the draft rule, the Commission has amended the drafting to reallocate some information to the tender process rules and to tenders themselves, rather than place it in procedures. Feedback from stakeholders and the changes from the draft to the final rule are detailed below.

6.7.1 Stakeholders had mixed views on procedures

In its submission and in subsequent meetings, AEMO raised concerns about the extent of operational matters the draft rule required to be in procedures. It noted the draft rule for administered demand response would "require AEMO to establish and maintain a standing procurement, baselining/verification, and settlement framework for events expected to occur infrequently".¹³¹ In subsequent discussions with AEMO, it was identified that some procedural

¹³⁰ Rule 206A(2) of the final rule.

¹³¹ Submission to the draft determination: AEMO, p 3.

requirements outlined in the draft rule may be better suited to being published when the SoLR is used, rather than in advance.

On the other hand, EUAA expressed its view that key operational requirements should be codified in the NGR, commenting “while flexibility in AEMO’s procurement approach is important, excessive reliance on AEMO-developed procedures risks weakening essential safeguards”.¹³²

6.7.2 Some information better suits the tender process rules

The final rule reallocates certain information from procedures to the competitive tender process. This approach better suits the type of information where the nature of the reliability threat will determine the information AEMO needs to provide and the information it needs to receive from potential SoLR suppliers. Publishing once a threat has been identified allows the information from AEMO to be tailored to the specific circumstances, while still supporting an efficient and transparent tender process without shortening the tender period.

The final rule does not require AEMO to develop and consult on procedures for the following matters that were included in the draft rule:

- information that potential SoLR service suppliers must provide to AEMO
- eligibility criteria requirements
- tender process rules
- demand response - including IT, metering, and baselining
- assessment criteria
- contract terms and conditions for terminating or relinquishing a contract - however, the rule specifies that AEMO may make procedures on these matters.

As much of the information listed above is specific to the event, consulting prior to the tender process when the event’s circumstances are not well known may result in less useful information requirements. As such, the information above should be published, where relevant, as part of the tender process.¹³³

Further, for demand response, given the range of gas customers who may consider offering demand response services and the limited flexibility of large gas customers, developing baselining procedures is likely to be very complex. As such, under the final rule AEMO must include in the tender process rules a requirement for a tender bid to provide demand response services to include technical and operational requirements to verify the quantity of administered demand response.¹³⁴ This would include a proposed baselining methodology, among other information.

Noting stakeholder feedback, the AEMC recognises the importance of balancing prescription with flexibility, and has determined a more flexible approach in the rules is suited to the SoLR given the infrequency with which it is expected to occur and the benefits of being able to tailor processes, within the confines of the rules, to the situation that arises. The Commission also notes the review following the first use of the SoLR will provide an opportunity to get stakeholder input on how well the various documents worked and what changes may be needed.

The operational method to activate the SoLR contributes to the NGO as it supports AEMO in delivering the reliable, secure and safe provision of covered gas at efficient cost to consumers over the long term.

¹³² Submission to the draft determination: EUAA, p 3.

¹³³ Rule 699G of the final rule.

¹³⁴ Rule 699G(g) of the final rule.

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

The final 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 as follows:

- Section 7.1 Outlining the cost recovery arrangements in the draft determination
- Section 7.2 Outlining that the trading fund will be replaced with a standardised cost recovery process
- Section 7.3 Detailing when cost recovery and proceeds distribution will be triggered
- Section 7.4 Describing the Commission’s considerations in determining a cost recovery and proceeds distribution methodology
- 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 will apply to AEMO for cost recovery.

Box 5: Final rule on cost recovery and proceeds distribution

The final rule:

- replaces the ex ante trading fund and \$35 million cap (as of June 2022) with a 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(s) 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) will occur on a monthly rolling basis until the SoLR service ceases to be used
- requires AEMO to include additional details regarding the process of the cost recovery and proceeds distribution methodology in procedures and guidelines.

The final rule differs from the draft rule in that it clarifies that costs are allocated to relevant participants in proportion to their respective demand for covered gas in the location(s) as opposed to region(s) to which the tier 3 threat relates.

7.1 Draft rule cost recovery arrangements

The draft rule set out a cost recovery and proceeds distribution methodology to replace the \$35 million trading fund. The key features were:

- 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

- 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.

7.2 The trading fund is replaced with a standardised cost recovery process

The final rule will replace the ex ante trading fund with a more transparent, standardised cost recovery and proceeds distribution mechanism.¹³⁵

Stakeholders provided no further commentary on replacing the trading fund. Stakeholders did however provide commentary around retaining an aggregate or volumetric cost constraint, not dissimilar to the \$35 million cap. For a detailed overview of stakeholder feedback and analysis relating to the \$50 million annual spending cap in the final rule see Chapter 4 of the determination.

The Commission considers that a standardised cost recovery and proceeds distribution methodology set out in the NGR provides benefits to participants and better meets the NGO because it provides more transparency than the current trading fund arrangement, reflecting good regulatory practice. In addition, other guardrails included in the rule, such as the preconditions and the high trigger threshold (chapter 5), the SoLR principles, and the price limit and cap (chapter 3), work together to limit AEMO's use of the mechanism and the costs that flow through to gas industry participants.

7.3 Establishing a SoLR contract will trigger cost recovery

The rule allows AEMO to recover costs it incurs after it establishes a SoLR service contract.¹³⁶

In response to the draft determination, EnergyAustralia asked for clarity around the interaction between the SoLR contract duration and the cost recovery period. EnergyAustralia noted that where AEMO establishes long-term SoLR service contracts well in advance of a forecast shortfall, cost recovery could operate over a multi-year window, socialising costs across all relevant entities for an extended period. It recommended that there should be a requirement in the final rule for AEMO to 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.¹³⁷

The Commission does not consider a rule as suggested by EnergyAustralia is required because the preconditions for AEMO to be able to enter into a SoLR contract are very narrow and limited by design, for more information see chapter 5. As a result, SoLR contracts are not expected to be active over a multi-year window.

As such, having considered stakeholder views, the cost recovery mechanism 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 contracts¹³⁸ (see chapter 6)
- all amounts paid or credited to (or earned or received by) AEMO acting as the supplier of last resort.

¹³⁵ Rule 708 of the final rule.

¹³⁶ See definition of 'AEMO SoLR costs' in rule 680 of the final rule.

¹³⁷ Submission to the draft determination: EnergyAustralia, p 3.

¹³⁸ Rules 699K and 699L of the final rule.

That is, only costs incurred once a SoLR contract has been established can be recovered through the cost recovery mechanism, including administrative costs relating to relinquishing the contracts.

Other costs incurred before entering into SoLR contracts but relating to SoLR, such as administrative costs incurred by AEMO in establishing the SoLR competitive tender process are to be shared across all ECGS participants through ECGS fees. This is appropriate as administrative costs incurred prior to establishment of SoLR service contracts are not anticipated to be material and are more integrated into business as usual type of activities. 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).

7.4 A demand-based cost recovery methodology applies

The final rule, in line with the draft rule, applies a share of gas demand-based methodology to cost recovery.¹³⁹

This section discusses the metric on which costs would be allocated under the rule, discussing stakeholder feedback to the draft determination.

7.4.1 Stakeholder views on how AEMO should recover costs

In response to the draft determination, APGA agreed with the proposed demand-based approach, noting that it was reasonable and likely the simplest to implement, even if it may disadvantage facilities that are fully contracted or cannot easily ramp down.¹⁴⁰

In contrast, several stakeholders still preferred a more targeted causer pays cost recovery methodology, noting that it would be materially fairer, better aligned with efficient market outcomes, and should target loads responsible for triggering SoLR intervention, therefore being in the long-term interests of consumers.¹⁴¹

However, these stakeholders did not provide any further information on how a more targeted causer pays methodology could be implemented. The Commission's assessment of cost allocation methodologies, including causer pays, in [section 7.3.3 of the draft determination](#) provides a detailed analysis of the challenges, complexities, and costs associated with designing and implementing a more targeted causer pays approach.

However, Origin suggested how a more targeted causer pays methodology could be implemented using two related approaches:¹⁴²

1. determine and allocate costs to participants' physical demand net of physical supply (but ignoring physical and financial contracts), across the whole ECGS (not just in the facilitated markets), relying on information readily available to AEMO
2. as above, but also inclusive of some contracts obtained through AER's existing market monitoring function.¹⁴³

On Origin's first approach, the Commission acknowledges that it may be a more targeted causer pays approach than the draft rule as it factors in physical supply as well as physical demand, in

¹³⁹ Rule 708(2) of the final rule.

¹⁴⁰ Submission to the draft determination: APGA, p 5.

¹⁴¹ Submissions to the draft determination: Alinta, p 5; APLNG, p 1; EUAA, p 2.

¹⁴² Submission to the draft determination: Origin, pp 2-3.

¹⁴³ This approach was discussed in the draft determination in section 7.3.3 and is considered problematic.

turn, reducing potential distortionary incentives to not manage an entity's gas needs. However, the approach is still problematic because:

- It could distort behaviours away from transactions 'in' the facilitated markets or pipelines, as it would favour vertical integration over contract-based relationships. For example, at exactly the time the system is stressed and transparent and liquid trading of gas is most valuable, market participants would be incentivised to avoid buying (net) gas in facilitated markets to avoid SoLR costs and instead would take their transactions 'off' market (or vertically integrate).
- It concentrates cost allocation. This is by design, but because the cost allocation process is imperfect, it risks concentrating costs to a few parties who may not actually be the causers.
- AEMO only has shipper data, not end user data available.

On Origin's second approach, while the Commission considers that having regard to contractual positions may further improve the accuracy of the approach, and so further diminish distortions, it still raises some issues because:

- it also concentrates cost allocation (as described regarding the first approach above)
- AEMO does not currently have access to these contracts, and even if AEMO were to access them there are significant challenges, costs, and complexities involved in analysing and considering contractual positions (see section 7.3.3 in the draft determination)
- it will likely be controversial to decide which contracts "count" for the allocation calculation (see section 7.3.3 of the draft determination).

Having considered Origin's suggestions, the Commission has concluded that while the approaches may produce some benefits, they are not simple or low cost to implement. For these reasons, the final rule does not implement the suggestions made by Origin. For a further detailed analysis of the feasibility of beneficiary pays and causer pays cost allocation methodologies, see section 7.3.3 of the draft determination.

7.4.2 Implementing a demand-based cost recovery methodology

On balance, due to the challenges, complexities, and costs of designing and implementing a more targeted causer pays methodology, the final rule specifies that costs are allocated by the proportion of (gross) demand from gas industry participants in the location and at the time of the SoLR intervention.¹⁴⁴

This approach retains some elements of causer pays, in that those who consume gas at times and locations of reliability threats may likely 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 therefore should not be allocated costs.

However, 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. On this basis, the cost allocation methodology also includes elements of beneficiary pays.

Importantly, this is an approach AEMO can readily implement, as it is similar to the cost allocation methodologies it already implements for DLNG and the ECGS (directions) compensation. Additionally, having one cost recovery mechanism for all SoLR interventions or events streamlines

¹⁴⁴ Rule 708(2) of the final rule. The rule refers to 'relevant entities' as defined in the NGL.

the approach, making it more practical and transparent. Both of these aspects contribute to the achievement of the NGO, as they are consistent with good regulatory practice and implementation considerations. Being more readily applicable and less costly than alternatives, the approach also addresses the objective of limiting costs for industry participants and gas consumers.

The Commission's final determination is that the most appropriate cost recovery approach for AEMO to implement for SoLR is a demand-based approach. As noted below, AEMO will also be required to consider the aspects of locality and timing in applying this methodology.

In making a final determination on the cost recovery methodology, the Commission has also considered the cost constraint that applies to AEMO's use of SoLR contracts (see chapter 4).

In addition, SoLR is designed to be used in limited circumstances, with other guardrails in place (i.e. preconditions, trigger and price limit), therefore maintaining incentives to contract in other ways promoting market efficiency. Assessing the mechanism as a whole, the Commission considers the rule's cost recovery methodology will not overly 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. See [section 7.3.3 of the draft determination](#) for more detail.

7.5 Costs will be determined based on the time and location of the SoLR event

Section 7.4 discussed how gross demand is the metric on which the majority of SoLR-related costs are to 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.

In response to the draft determination, AEMO requested clarity around how the 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. It noted 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.¹⁴⁵

The cost recovery approach should enable AEMO to be as locationally specific as possible. While the Commission is not amending the ECGS directions framework, we acknowledge that consistency between the approaches, where appropriate, is preferred. Therefore, under the final rule costs will be allocated:

- to each relevant entity (as defined in the NGL)
- in proportion to their respective demand for covered gas in the location(s) (as opposed to region(s)) to which the tier 3 threat relates (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

¹⁴⁵ Submission to the draft determination: AEMO, p 3.

from SoLR being used. The alternative of enabling costs to be recovered from participants across a region, 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.¹⁴⁶ The final 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 to which costs are shared may impact this effect).

In response to AEMO's submission, 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 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 rule cost allocation mechanism are aligned with principles of market efficiency and good regulatory practice, contributing to achievement of the NGO by being in the long term interests of consumers.

Under the final rule, AEMO will provide additional details on this cost recovery mechanism feature in its procedures, see chapter 9.¹⁴⁷

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 final rule outlines that any such proceeds are to be distributed back to relevant entities using the same process used for cost recovery.¹⁴⁸

No stakeholders commented on this detail in their submissions to the draft determination. The Commission is satisfied that its assessment described in the draft determination remains relevant.

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 separate methodology. Overall, the Commission considers that using the same arrangements is fit for purpose and contributes to the achievement of the NGO as it helps minimise gas consumer costs consistent with good regulatory practice.

7.7 Improved transparency around cost recovery and proceeds distribution

The rule requires AEMO to establish procedures to consult on, establish, and implement a cost recovery and proceeds distribution methodology in accordance with the approach outlined above.¹⁴⁹

¹⁴⁶ Rule 696A of the ERSAA final rule.

¹⁴⁷ Rule 709 of the final rule.

¹⁴⁸ Rule 708 of the final rule.

¹⁴⁹ Rule 709 of the final rule.

Stakeholders did not provide further feedback on this issue in submissions to the draft determination.

The Commission remains of the view that this approach is transparent, simple, and auditable. This promotes achieving the NGO, and is more preferable than the trading fund arrangements because the new arrangement supports efficient decision-making, reduces administrative costs and errors, and promotes confidence and certainty in the operation of SoLR.

7.7.1 **AEMO will establish and maintain a separate financial account**

The final rule requires AEMO to maintain a separate financial account for SoLR purposes.¹⁵⁰

Stakeholders did not comment on this issue in submissions to the draft determination. Consequently, the final rule is the same as the draft rule.

The Commission considers a separate financial account provides 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. It provides added transparency and accountability, helps ensure costs are accurately attributed to the SoLR mechanism, and supports robust financial governance and auditability. While it may create some additional costs for AEMO, it also imposes greater discipline on AEMO in terms of the costs it incurs, and provides industry participants with added confidence around the need and appropriateness of those costs.

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

The rule specifies AEMO settlement (for both cost recovery and proceeds distribution) will occur on a monthly rolling basis (provided AEMO incurs SoLR costs or receives SoLR proceeds in the previous month).¹⁵¹

The Commission considers this monthly approach allows for timely cashflow, better 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. Managing costs on a monthly basis is consistent with good regulatory practice and aligned with contributing to achieving the NGO.

Stakeholders did not comment on this issue in submissions to the draft determination. The Commission is satisfied that its assessment remains relevant. Therefore, the final rule is the same as the draft rule.

7.7.3 **AEMO procedures would support cost recovery arrangements**

The final rule also specifies additional details regarding the process of the cost recovery and proceeds distribution methodology, which are to be specified by AEMO in the ECGS Procedures.¹⁵²

Stakeholders did not comment on this issue in submissions to the draft determination. The Commission remains of the view that 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

¹⁵⁰ Rule 710 of the final rule.

¹⁵¹ Rule 708(3) of the final rule.

¹⁵² Rule 709 of the final rule.

- a method and process for determining the proportionate allocation of costs and proceeds incurred (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 therefore contributes to the achievement of the NGO to promote efficient investment in, and efficient operation and use of, covered gas services for the long term interests of consumers. The final rule is the same as the draft rule.

8 Improving transparency and accountability for SoLR

The final rule details how AEMO will provide transparency utilising 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 draft rule 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 rules discussed in this chapter is provided in the box below.

Box 6: Final rule on market notices and reporting requirements

The final 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 provides participants with sufficient opportunity to respond to prevent an intervention.
- Requires AEMO to publish the following reports (in addition to reporting annually to energy ministers under existing rule 711):
 - 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.
- Requires AEMO to inform Ministers of relevant participating jurisdictions of its intention to tender for and activate SoLR service contracts and the expected costs associated with activating any contracts.

Changes from the draft to final include:

- clarifying that AEMO can only tender for SoLR contracts if it has issued a notice
- requiring AEMO to explain in the notice of latest practicable time, if AEMO intends to activate SoLR contracts, why its other functions would not be available, or would be insufficient, to address a tier 3 threat
- requiring AEMO to publish the post-intervention reports on AEMO's website.

8.1 Draft rule transparency and accountability arrangements

The draft rule:

- Integrated 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 provides participants with sufficient opportunity to respond to prevent an intervention.
- Required 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.
- Required AEMO to inform Ministers of relevant participating jurisdictions of its intention to tender for SoLR service contracts and the expected costs associated with activating any contracts.

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

8.2 Improved notices to better inform the market

The final rule, in line with stakeholder feedback, provides industry participants with timely information about AEMO's SoLR response, giving industry participants sufficient opportunity to respond and prevent an intervention.

In response to the draft determination, stakeholders supported enhanced transparency measures including SoLR market notices linked to the threat signalling framework.¹⁵³

However, some stakeholders recommended drafting clarifications:

- the use of the word 'may' in draft rules 696B(1) and (2) should be replaced with 'must' to avoid AEMO tendering for contracts without having published a notice¹⁵⁴
- the obligation in draft rule 696B(3) requiring AEMO to demonstrate that it has considered all other options and functions before tendering or activating SoLR should be replicated in rules 696B(1) and 696B(2).¹⁵⁵

In response to these suggestions, the Commission considers that:

- The use of the word 'may' is required in 696B(1) and (2) to give AEMO the flexibility to not establish SoLR contracts for every tier 3 threat. The intention was not to allow AEMO to move to a tendering process without having issued a notice. However, noting this interpretation, the final rule 699I has been amended to clarify that AEMO can only tender for SoLR contracts if it has issued a notice. This change should also reinforce the intention that operating SoLR is genuinely last resort, and it supports market-led responses addressing threats to reliability.
- The requirement in rule 696B(3) regarding consideration of other AEMO tools¹⁵⁶ already applies to SoLR tendering and activation under rules 696B(1) and (2).¹⁵⁷ However, requiring the tendering and activation notices to set out why AEMO considers AEMO's other functions may not be available or sufficient to address the threat will support transparency for industry participants. As such, the final rule expands the information required in tendering and activation notices to include this additional information.¹⁵⁸

The Commission considers that an integrated tiered signalling framework aimed at encouraging market-led responses to risks and threats provides a streamlined approach to ECGS risk and threat communication and management. This promotes consistency in how reliability risks are assessed and how AEMO's powers are applied.

153 Submissions to the draft determination: Shell, p 3; APLNG, p 4.

154 Submissions to the draft determination: APGA, p 4; APA, pp 6-7.

155 Submission to the draft determination: APA, p 7.

156 Rule 696B(3) of the final rule provides that AEMO may only issue notices regarding tendering for or activating SoLR contracts, under rules 696B(1) and (2), if it has determined that its other functions would not be available, or would be insufficient, to address a tier 3 threat.

157 Rule 696B(2) of the final rule allows AEMO to specify in a notice that it intends to activate SoLR service contracts.

158 Rules 696B(1)-(2)(b) of the final rule.

8.2.1 Improved transparency through integrated SoLR and threat signalling notices

The rule integrates SoLR notices with the ERSAA rule regarding notices of time for industry response, within the tiered risk or threat signalling framework.¹⁵⁹

In line with stakeholder feedback, the Commission considers SoLR notices should account for the interdependencies with the ERSAA rule, which includes a more sophisticated, tiered risk or threat signalling framework than the ‘flat’ or non-tiered system under the existing trading function. The integrated notices enable industry participants to respond with measures proportionate to the nature of the risk or threat, providing participants with a real opportunity to respond before AEMO intervenes.

The rule enables AEMO to contract for SoLR services when a tier 3 risk or threat alert is reached and a notice about the latest practicable time for an adequate response has been published.¹⁶⁰

This timing is appropriate because it:

- provides the market 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 or unforeseen events but for events that can be forecasted or foreseen.

The Commission considers integrating and streamlining SoLR notices with the tiered signalling framework promotes the NGO, because:

- It provides clarity to the market in line with good regulatory practice, since 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 removes unnecessary duplication and provides clarity on when and how AEMO communicates to the market.
- It is more useful than the current trading function, where 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 as an emergency, it also creates uncertainty for industry participants and other interested stakeholders. However, the Commission does not consider SoLR to be an appropriate tool for emergencies.
- The flat notice structure of the trading function 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 rule integrates the information contained in SoLR market notices with the tiered threat and risk signalling framework. See section 3.2 of the ERSAA final determination for details on what information would be provided in the tiered risk or threat notices.

¹⁵⁹ Rule 696A and 696b of the final rule.

¹⁶⁰ Rule 396B(1) of the final rule, relating to the notice in rule 396A(1) of the final rule.

Table 8.1: Integrated SoLR and tiered risk or threat signalling framework notices

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 (Rule 696A(1))	<p>AEMO intends to tender for SoLR contracts, if AEMO determines this is the best approach or tool to manage the threat (rule 696B(1)). Notice must include:</p> <ul style="list-style-type: none"> • why AEMO intends to establish a SoLR service contract • actions AEMO considers would constitute an adequate industry response
		No adequate industry response has occurred (Rule 696A(3))	<p>AEMO intends to activate SoLR contracts, if AEMO determines that this is the best approach or tool to manage the threat (rule 696B(2)). Notice must include:</p> <ul style="list-style-type: none"> • 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

Tier (risk and threat signalling framework)	What the tier indicates*	Notice requirement details (ERSAA)	SoLR information that may be included
			<ul style="list-style-type: none"> why AEMO considers AEMO's other functions would not be available or sufficient to address the threat
		Variation or revocation of risk or threat (rule 696)	<p>AEMO has ceased to activate SoLR contracts, if a threat has also ceased (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. The notice must include:</p> <ul style="list-style-type: none"> 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: Rules 696; 696A; 696B of the ERSAA and SoLR final rules.

Note: * This is for illustrative purposes only. These details will be set out in procedures.

8.3 Improving AEMO's accountability

The rule requires AEMO to publish two post intervention reports and report to energy ministers and affected jurisdictions about SoLR activities.¹⁶¹

¹⁶¹ Rules 699M and 696B(4) of the final rule, and existing rule 711 of the NGR.

In response to the draft determination, stakeholders strongly supported transparent reporting obligations and accountability on AEMO's use of SoLR, including the proposed one-month and four-month post-SoLR activation reports.¹⁶² Further, stakeholders:

- commented that the post-SoLR activation reports are a valuable tool for participants to understand SoLR costs and analyse and learn from events that led to SoLR being activated¹⁶³
- agreed with the AEMC's decision not to proceed with biannual reporting requirements. In their view, these reports would not provide additional insight and would impose unnecessary administrative burden on AEMO.¹⁶⁴

However, several stakeholders recommended changes to the draft rule:

- post-intervention reporting should clearly set out the rationale for intervention, why market responses were insufficient, and the impact of the intervention on market outcomes, with the reports publicly available to ensure accountability and support confidence in the proportional and appropriate use of SoLR powers¹⁶⁵
- reporting obligations should compare forecasts to actual outcomes, and provide reasons where actual outcomes deviate from forecast and what steps will be undertaken to improve forecasting, including providing independent oversight (by either the AER or AEMC) of forecasting accuracy and reporting¹⁶⁶
- contracting arrangements for SoLR tenders should be published, given that SoLR costs are ultimately borne by the market, participants should have visibility of who supplied services to AEMO, the volumes contracted, and the prices paid (or at least the total cost of the SoLR contract).¹⁶⁷

Shell also questioned the reporting requirements set out in what Shell believed was a new provision, on the publication of post intervention reports for directions.¹⁶⁸ The Commission clarifies that this is not a new provision; it is an existing rule on directions that has been moved to better accommodate the ordering of the new rules. The Commission has not made any material changes to the operation of the directions framework in this rule change process.

In considering the stakeholder feedback above, the Commission notes that:

- The intent is that post-activation reports are publicly available; for certainty this has been clarified in the final rule.¹⁶⁹
- The rule already requires AEMO to clearly set out the rationale for intervention in the post-SoLR activation reports, by detailing, among other items:¹⁷⁰
 - the events that led to AEMO activating SoLR
 - whether or not AEMO used any of its other functions, and if it used them, what those measures were and what contribution they made
 - how AEMO acted when using SoLR, including the types of services that were activated under SoLR service contracts

162 Submissions to the draft determination: Shell, p 3; APLNG, p 4; EUAA, p 3, Origin, p 3.

163 Submission to the draft determination: Shell, p 4.

164 Submission to the draft determination: APLNG, p 4.

165 Submission to the draft determination: Alinta, p 5.

166 Submissions to the draft determination: Shell, p 3; EUAA, p 3.

167 Submission to the draft determination: Alinta, p 5.

168 Submission to the draft determination: Shell, p 3.

169 Rule 699M(1) and (3) of the final rule now require AEMO to publish the reports.

170 Rule 699M(4) of the final rule.

- the extent to which each of those types of services contributed to addressing or mitigating the threat
- the reasons why AEMO used SoLR, including what AEMO considered in deciding whether to activate SoLR contracts
- AEMO's total expenditure, including a detailed breakdown of cost recovery and proceeds distribution.
- The concurrent PASA rule aims at improving the quality and usefulness of forecasts and providing greater transparency and market understanding about forecast and actual information on demand, supply and infrastructure capability. In turn, this added transparency will provide more detailed information to AEMO and participants to help them make better decisions on the demand and supply balance in the ECGS. For these reasons, the Commission does not see value in requiring AEMO to include a comparison of forecasts to actual outcomes in the post activation reports. Therefore, the final rule does not reflect the suggestions from Shell and the EUAA.
- As detailed below, the post-activation reports will provide transparency for the market, including SoLR costs, without publishing commercially sensitive information like specific pricing, exact financial and non-financial terms of every individual contract. Publication of such information may affect participants' willingness to offer SoLR services to AEMO in the future. For these reasons, the final rule does not require the publication of such information as sought by Alinta.

The Commission considers that the rule provides an appropriate balance between enabling industry participants to be well-informed about important matters, such as market interventions, and the administrative costs to AEMO that arise from publication and reporting requirements. For these reasons, the Commission is satisfied that the rule contributes to achieving the NGO and has considered implementation costs to be consistent with good regulatory practice.

For a comparison of proposed accountability measures throughout the rule change process, see figure 8.1 in the [draft determination](#).

8.3.1 AEMO will publish an initial post-SoLR activation report

The rule requires AEMO to publish an initial post-SoLR activation report within one month of issuing an end of activation notice.¹⁷¹ This report includes 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.

Requiring AEMO to provide an initial report no longer than one month from when the intervention has ceased will provide prompt reporting, further enhancing accountability.

As an initial report, AEMO can provide timely and useful information to industry participants. This would support better informed decision-making for industry participants, consistent with promoting better market outcomes and ultimately benefiting consumers.

¹⁷¹ Rule 699M(1)-(2) of the final rule.

The Commission did not receive any comments on the proposed contents of the initial post-SOLR activation report. As we consider the draft determination assessment remains relevant, the final rule on this point is the same as the draft rule.

8.3.2 AEMO will publish a detailed post-SoLR activation report

The rule requires AEMO to publish a detailed post-SoLR activation report within four months of issuing an end of activation notice.¹⁷²

This report includes the same information as the initial report, although updated as needed and in greater detail. In addition, it includes:

- 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 activated under SoLR service 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 costs.

The costs of AEMO providing two post-intervention reports will not be significant. The benefit of the reports is that they better provide useful and timely information to industry participants (and jurisdictions and other interested parties) compared to one post-intervention report and biannual reporting proposed in the rule change request. As a result, this post-event reporting will promote better market outcomes and ultimately benefit consumers.

As stakeholders did not comment or seek changes to this provision of the draft rule, the final rule is the same as the draft rule (subject to minor clarifying changes).

8.3.3 AEMO will report to energy ministers

Under the rule, AEMO retains its reporting requirements to energy ministers about its use of the SoLR mechanism as introduced through the stage 1 RSA reforms.¹⁷³ AEMO is also required to inform Ministers of relevant participating jurisdictions of its intention to tender for and activate SoLR service contracts and the expected costs associated with activating those contracts.¹⁷⁴

The Commission considers it appropriate to retain AEMO's annual ministerial reporting requirements as this obligation refers to all ECGS functions, not just SoLR. An annual report should provide a complete overview of all of AEMO's ECGS activities, acknowledging there is a single reliability and supply adequacy framework. The report also provides an opportunity for AEMO to suggest any amendments to the framework, whether in the law, rules or procedures, for consideration by jurisdictions.

¹⁷² Rule 699M(3)-(4) of the final rule.

¹⁷³ Rule 711 of the NGR.

¹⁷⁴ Rule 696B(4) of the final rule.

9 Implementation and transitional arrangements

The final rule details transitional arrangements for the trading function, trading fund, and implementation arrangements, including the timeframe for updates to AEMO's procedures and guidelines. This chapter contains:

- Section 9.1 Detailing the implementation and transitional arrangements outlined in the draft rule
- Section 9.2 Outlining the transitional arrangements for the trading function and fund
- Section 9.3 Outlining the time and subject matter for procedures and guidelines
- Section 9.4 Setting out requirements for AEMO to review the SoLR mechanism
- Section 9.5 Describing potential implementation costs.

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

Box 7: Final rule on transitional and implementation arrangements

The final rule:

- provides that, if AEMO is exercising the current trading function under the existing Part 27 rules at the time this rule commences (April 2027), AEMO can complete that intervention under the existing Part 27 trading function rules
- provides that, if AEMO has any funds in the trading fund on commencement of the rule (or after completing a trading function intervention referred to above), AEMO will refund those amounts
- requires AEMO to consult on and update relevant procedures and guidelines, including the ECGS Procedures, by no later than 1 April 2027.

Changes from the draft to final are:

- AEMO is required to review the SoLR procedures, guidelines, and relevant tender processes within 18 months of first activating SoLR.

9.1 Draft rule implementation and transitional arrangements

The draft rule:

- provided that, if AEMO is exercising the current trading function under the Part 27 trading function rules at the time the new rules commence, AEMO can complete that activity under the current rules
- provided 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 to relevant entities
- required AEMO to consult on and update relevant procedures and guidelines, including the ECGS Procedures, by no later than April 2027.

9.2 Transitional arrangements for the trading function and fund

The rule provides transitional arrangements for the trading function and fund, which apply if they are being exercised at the time the rule commences. Details are set out below.

9.2.1 Trading function rules continue to apply if being exercised at the time this rule commences

The rule allows for the continuation of the trading function under the existing Part 27 rules in the event AEMO has not yet completed its exercise of the trading function at the time this rule commences.¹⁷⁵

Stakeholders did not provide any further commentary on this in response to the draft determination.¹⁷⁶

This approach means the existing rules in Part 27 of the NGR 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 includes cost recovery, proceeds distribution and reporting.

9.2.2 AEMO to refund money held in the trading fund

The rule provides that AEMO is to refund any money held in the trading fund, either upon commencement of this rule or upon completion of the exercise of the trading function if it is being utilised at the time this rule commences.¹⁷⁷ AEMO will make any required repayments of any fund established by AEMO for the purposes of the trading fund, and if at the time this rule commences, the trading fund includes any amounts that have been contributed by relevant entities, AEMO will be required to refund each relevant entity in proportion to their respective contributions.¹⁷⁸

The Commission understands that the trading fund is currently established as a debt facility, meaning AEMO has not asked for contributions from participants and as such, no participants would currently require refunding. However, this transitional rule provides clarity on the approach if AEMO exercises its power to establish a fund before April 2027.

Stakeholders did not provide any further commentary on this approach in response to the draft determination.¹⁷⁹

9.2.3 The transitional arrangements promote the NGO

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

- are consistent with good regulatory practice and promote predictability and stability around how the rules will function at the time this 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 trading function is not unnecessarily interrupted by this rule. AEMO will 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.

¹⁷⁵ Transitional rule 136 of the final rule.

¹⁷⁶ In response to the consultation paper, stakeholders agreed with this approach: Submissions to the consultation paper: GB Energy, p 17; APA, p 17.

¹⁷⁷ Transitional rule 137 of the final rule.

¹⁷⁸ Transitional rule 137 of the final rule.

¹⁷⁹ In response to the consultation paper stakeholders agreed with this approach: Submissions to the consultation paper: GB Energy, p 17; APA, p 17.

9.3 Updating procedures and guidelines

The SoLR (and ERSAA and PASA) rules require AEMO to update the ECGS Procedures. This section discusses when the procedure change is to be completed as well as noting the information that the SoLR rule requires in the procedures.

9.3.1 AEMO is to update procedures and guidelines by 1 April 2027

The rule provides AEMO until 1 April 2027 to consult on and update relevant procedures and guidelines.¹⁸⁰ AEMO will use the applicable consultation procedures to develop and update these documents: for procedures, the process set out in rule 135EE or 135EF (one round of consultation), and for guidelines, the process set out in rules 8 or 9 (one or two rounds of consultation).

In response to the draft determination, stakeholders did not support a 1 April 2027 commencement date, which would have required procedures consultation to be concluded by the end of 2026, and encouraged the AEMC to consider extending the timeframe.¹⁸¹ Stakeholders noted that:

- the cumulative procedural development of concurrent RSA reforms (ERSAA, ECGS PASA, and the SoLR) procedures is significant, with each workstream requiring consultation, system changes, and commercial adaptation¹⁸²
- 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.¹⁸³

Implementing procedures and guidelines across the RSA rule package

In considering stakeholder feedback, the Commission has consulted with AEMO to confirm a workable arrangement for implementing the stage 2 RSA rule package. This has included considering what elements of the package can be implemented before others, and what elements require a longer implementation time. As a result, the Commission has made rules that:

- require AEMO procedure changes arising from the PASA, ERSAA and SoLR rules to be completed by 1 April 2027
- recognise that after the procedures are made, PASA will involve staged implementation to be completed by 8 June 2028, when AEMO is to begin publishing its PASA forecasts.¹⁸⁴

This implementation approach addresses the concerns raised by AEMO and industry participants. It provides the benefit to industry and AEMO of greater time to develop procedures, while also enabling ERSAA and SoLR to be used as soon as possible. It also recognises the time and consultation required to develop the systems necessary for PASA.

In the interim before procedures are finalised, in an instance there is a reliability threat, AEMO would still have the current stage 1 reforms (including the trading fund) available. The Commission considers that this strikes an appropriate balance as it:

¹⁸⁰ Transitional rule 138 of the final rule.

¹⁸¹ Submissions to the draft determination: APLNG, p 2; Origin, p 4; Energy Australia, p 4; APA, p 8.

¹⁸² Submissions to the draft determination: Energy Australia, p 4; APLNG, p 2.

¹⁸³ Submission to the draft determination: APLNG, p 2.

¹⁸⁴ AEMC, *ECGS Projected assessment of system adequacy*, rule determination, 25 June 2026, chapter 5.

- recognises implementation realities around the scale, complexity, and sequencing of concurrent RSA reforms, while taking into account government and AEMO desire for stage 2 RSA implementation ahead of any forecasted reliability shortfalls
- enables meaningful consultation between AEMO and market participants in developing procedures and 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.

In the period following 1 April 2027 but prior to 8 June 2028, the ERSAA and SoLR rules will be operational. While PASA will not be complete and able to feed into risk and threat assessments, AEMO will be able to use the tiered signalling framework, and SoLR, as relevant should an issue in the ECGS emerge.

9.3.2 Information to be contained in procedures

To enable the stage 2 RSA rules to be operational, procedures will play an important role in setting out further details. For SoLR, information to be contained in AEMO procedures is to include:

- requirements and information AEMO considers necessary to facilitate tendering for and entering into SoLR service contracts¹⁸⁵
- processes and steps for establishing and activating SoLR service contracts¹⁸⁶
- details of the cost recovery and proceeds distribution processes, including how AEMO would determine locations to be used for those processes¹⁸⁷
- details on SoLR gas supply and withdrawals in the STTM (to be contained in the STTM Procedures)¹⁸⁸
- details on the injection of gas into the DWGM by a SoLR service supplier (to be contained in the gas scheduling procedures).¹⁸⁹

AEMO may also, but is not required to, make procedures on relinquishment and termination of SoLR service contracts.¹⁹⁰

As discussed in chapter 6, unlike the draft rule, the Commission no longer requires the following in procedures because the information is to be published elsewhere:

- eligibility criteria for bidders with respect to their financial and technical capabilities¹⁹¹
- details on the competitive tender process and tender assessment criteria¹⁹²
- technical and operational requirements for administered demand response¹⁹³
- information, technology, and systems requirements for administered demand response.¹⁹⁴

185 Rule 699D of the final rule.

186 Rule 699D of the final rule.

187 Rule 709 of the final rule.

188 Rule 450A of the final rule.

189 Rule 286D of the NGR.

190 Rule 699K and 699L of the final rule.

191 Covered in rule 699F of the final rule; AEMO may include further details in the tender process rules under rule 699G of the final rule.

192 AEMO is to include information on these matters in the tender process rules under rule 699G of the final rule.

193 AEMO is to specify in the tender process rules the information that bidders must include on these points; rule 699G(g) of the final rule.

194 AEMO is to specify in the tender process rules the information that bidders must include on these points; rule 699G(g) of the final rule.

9.4 Reviewing SoLR after its initial use

The rule requires AEMO to review SoLR procedures and relevant tender processes and documents, with the review to be concluded 18 months after the first time SoLR is activated.¹⁹⁵ This is a change from the draft rule.

In response to the draft determination, stakeholders suggested:

- the final rule include a mandatory periodic review. 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 modifications¹⁹⁶
- the AEMC consider developing a trigger to review the effectiveness of the SoLR based on the frequency that it is used¹⁹⁷
- the final rule change allows for review two years after initial implementation and as a minimum, routine four yearly reviews of the procedures and methodologies with emphasis placed on addressing issues raised by market participants.¹⁹⁸

The stage 1 RSA reforms included rule 711 of the NGR, which requires AEMO to report annually to Energy Ministers on its use of the ECGS RSA functions.

Further, procedures can be revised at any time, with AEMO required to follow the NGR procedure review process, which includes public consultation. Industry participants can also raise any issues for resolution through the AEMO-led Gas Wholesale Consultative Forum, which meets quarterly.¹⁹⁹

In considering the rule change request and stakeholder feedback, a rule requiring additional periodic reviews of SoLR may provide little value, especially if the mechanism is infrequently or never used. For this reason, the rule does not implement an ongoing periodic review requirement as suggested by Shell.

However, the Commission has considered the suggestions of an implementation review made by EnergyAustralia, EUAA, CS Energy and Shell. Requiring AEMO to complete a review (with public consultation) of SoLR procedures, guidelines, and relevant tender processes after using SoLR for the first time will help address any initial teething issues raised by industry participants without over-burdening AEMO or industry participants. This review should consider the full operation of the mechanism, including its use of the tiered signalling framework through to finalising the cost recovery process.

To allow time for a comprehensive review with industry consultation, the rule specifies that this post-SoLR activation review be completed no later than 18 months after SoLR is first used.

Following the post-SoLR activation review, AEMO and industry participants will be in the position to progress improvements to procedures (with AEMO) and/or the NGR (through an AEMC rule change process).

¹⁹⁵ Rule 699N of the final rule.

¹⁹⁶ Submissions to the draft determination: Energy Australia, p 4; EUAA, p 3.

¹⁹⁷ Submission to the draft determination: CS Energy, p 4.

¹⁹⁸ Submission to the draft determination: Shell, pp 2-3.

¹⁹⁹ AEMO, [Gas Wholesale Consultative Forum](#).

9.5 Implementation costs

Implementing the SoLR mechanism requires 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 industry participants will incur one-off and administrative costs to develop the required documents and provide submissions and feedback. Additionally, industry participants may need to change their business practices to accommodate the introduction of the SoLR mechanism. These changes are also considered implementation costs.²⁰⁰

Based on information available to date, the implementation costs for SoLR are likely to be relatively low. The Commission notes:

- initial establishment costs are justified on the basis that they are one-off and anticipated to be minimal
- AEMO's 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 rule (see chapter 7).

On this basis, the implementation processes and costs to AEMO, participants, and consumers are likely to be outweighed by the benefits of achieving the desired outcomes of providing AEMO with guardrails for effective use of the trading function while reinforcing governments' policy intent of it being a limited last resort mechanism.

A discussion on these costs compared to the potential benefits of the SoLR mechanism is included in chapter 2.

200 Rule change request, p 71.

A 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).

You can find more information on the rule change process on our website.²⁰¹

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.²⁰²
- a consultation paper
- a notice of extension of time for the making of the draft determination and final determination.²⁰³ Accordingly, the time for making the:
 - draft determination was extended to and published on 26 February 2026
 - final determination was extended to and published on 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.

Submissions in response to the draft determination and draft rule closed on 23 April 2026. The Commission received 15 submissions in this second round of consultation. The Commission has considered all issues raised by stakeholders in submissions in making this final rule determination. Issues raised in submissions are discussed and responded to throughout this 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 draft determination 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

201 See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>

202 This notice was published under section 303 of the NGL and is available to view on the project page.

203 This notice was published under section 317 of the NGL and is available to view on the project page.

ECGS. These tools would allow AEMO and market participants to better respond to reliability and supply adequacy threats.

The RSA stage 1 reforms in early 2023 were made in the face of impending risks of gas shortfalls forecast for winter 2023.²⁰⁴

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.²⁰⁵

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.²⁰⁶

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.²⁰⁷

There are five reasons why the proponents consider their preferred option - to introduce a supplier of last resort mechanism - to be the most appropriate:²⁰⁸

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.²⁰⁹

²⁰⁴ 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](#).

²⁰⁵ For more details on the other rule change requests that form part of the framework, see Chapter 1 of the [background paper](#).

²⁰⁶ Rule change request, pp 11-12.

²⁰⁷ See Chapter 2 of the [consultation paper](#) for more information.

²⁰⁸ Rule change request, p 28.

²⁰⁹ Rule change request, p 8.

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 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.²¹⁰
 - 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.

²¹⁰ The proposal to introduce a gas reliability standard has been considered through the ECGS Enhancing reliability and supply adequacy arrangements rule change process.

B Legal requirements to make a rule

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

B.1 Final rule determination and more preferable final rule

In accordance with section 311 of the NGL, the Commission has made this final rule determination for a more preferable final rule in relation to the rule change request.

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

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

B.2 Power to make the rule

The Commission is satisfied that the more preferable final rule falls within the subject matters about which the Commission may make rules.

The more preferable final 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 final 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)
- 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 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 final rule is likely to better contribute to the achievement of the NGO. The Commission's reasons are set out in chapter 2 and throughout the determination.

B.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NGL to make the final rule, including a more preferable rule
- the rule change request
- submissions received during first round consultation
- information and other feedback from stakeholders received during consultation
- the Commission's analysis as to the ways in which the final rule will or is likely to better contribute to the achievement of the NGO
- submissions received during second round consultations
- the application of the final rule to Western Australia.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.²¹¹

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.²¹² The more preferable final 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.²¹³

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 Energy²¹⁴ and rules made by the AEMC in accordance with its rule making powers under section 74 and 313 of the WA Gas Law.²¹⁵

The final rule does not fall within the subject matters about which the Commission may make rules under the WA Gas Act and WA Gas Law.²¹⁶ For example, there is no express head of power

211 Under s. 33 of the NEL and 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 Federal, State and Territory Ministers responsible for energy.

212 Section 295(4) of the NGL.

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

214 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.

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

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

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 final 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.²¹⁷ Consequently, Part 27 of the NGR does not apply in the WA version of the NGR. The final 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 final rule will 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 NGL sets out a three-tier penalty structure for civil penalty provisions in the NGL and the NGR.²¹⁸ A Decision Matrix and Concepts Table,²¹⁹ approved by energy ministers, provide a decision-making framework that the Commission applies when assessing whether to recommend that provisions of the NGR should be classified as civil penalty provisions, and if so, under which tier.

Subject to consultation with the AER and endorsement, the Commission proposes to make the following civil penalty recommendation to energy ministers’ in relation to the final rule.

Table B.1: Deleted civil penalty provision recommendation

Rule	Description of rule	Recommendation	Reason
Existing rule 709(4)	The rule established that total funding capacity for the trading fund was \$35 million each financial year. The rule set out the notice and information requirements procedure for payment of fees and charges in relation to the trading fund, interest accrual, and entity entitlements to refunds based on contributions.	Recommend that rule 709(4) is no longer classified as a tier 2 civil penalty provision under the National Gas (South Australia) Regulations.	The more preferable final rule deletes existing rule 709 in its entirety, including the civil penalty provision note, and replaces it with a new rule 709 setting out the arrangements for cost recovery and proceeds distribution in regards to AEMO’s SoLR costs and proceeds. We are not recommending new

217 Section 2 of the NGL.

218 Further information is available at <https://www.aemc.gov.au/regulation/energy-rules/civil-penalty-tools>

219 The Decision Matrix and Concepts Table is available at: https://web.archive.org/au/awa/20210603104757mp_/https://energyministers.gov.au/sites/prod.energycouncil/files/publications/documents/Final%20-%20Civil%20Penalties%20Decision%20Matrix%20and%20Concepts%20Table_Jan%202021.pdf

Rule	Description of rule	Recommendation	Reason
			rule 709 be classified as a civil penalty provision.

C Changes from draft to final rule

This Appendix provides a quick reference to the policy changes between the draft rule and final rule, set out by chapter of this final determination. These tables do not cover minor drafting amendments and are intended solely for clarity, nor do they provide an overview of the rule itself.

Further details on these changes can be found in the relevant chapters.

Table C.1: Key design features (Chapter 3)

Topic	Draft rule	Final rule
Key design features of SoLR	The draft rule set out principles to guide AEMO, enabled AEMO to contract for a range of services and did not apply a geographical or time limit to AEMO's use of SoLR.	No significant changes have been made to these provisions.

Table C.2: Constraining AEMO's SoLR costs (Chapter 4)

Topic	Draft rule	Final rule
Limiting the price for each SoLR contract	The draft rule set a price limit of \$800/GJ (inclusive of the DWGM or STTM market price, as relevant) for each SoLR contract.	The final rule sets out a SoLR cost constraint for AEMO that comprises two elements: (1) a SoLR service contract price limit of \$40/GJ for the contract between AEMO and the SoLR provider. (2) an annual aggregate spending limit on SoLR contracts for AEMO set at \$50 million.

Table C.3: Preconditions and trigger for the SoLR mechanism (Chapter 5)

Topic	Draft rule	Final rule
Gas reliability and supply adequacy conferences	The draft rule did not include any reference to the gas reliability and supply adequacy conferences as part of the preconditions or trigger for the SoLR mechanism.	The final rule allows AEMO to convene a gas reliability and supply adequacy conference for the purposes of obtaining information to assess the need to use SoLR for a tier 3 threat.

Table C.4: Operating SoLR (Chapter 6)

Topic	Draft rule	Final rule
Activating SoLR within the facilitated markets	<p>For the STTM, the draft rule specified that the SoLR service provider would bid or offer gas into the ex ante market schedule, as an STTM market participant would, for the gas day, which AEMO would include (subject to conditions).</p> <p>For the DWGM, AEMO could include the gas in the ex ante market or pricing schedule at a price equal to the DWGM's MPC (VoLL).</p>	<p>In the STTM, the final rule provides AEMO flexibility in how to arrange for the SoLR service supplier to supply gas to a hub, it may use the same process used for contingency gas.</p> <p>In the DWGM, the final rule provides flexibility to AEMO in how SoLR gas is to be supplied. The final rule acknowledges this may be achieved through injections or withdrawals.</p>
Procedures	The draft rule required AEMO to establish and consult on a range of procedures relating to the SoLR.	The final rule requires AEMO to establish and consult on procedures for the operation of the SoLR. However, some draft rule procedures have been moved to tender process rules, reducing the amount of information required to be included in procedures developed for SoLR.

Table C.5: Implementing demand-based cost recovery and proceeds distribution (Chapter 7)

Topic	Draft rule	Final rule
Cost recovery process	The draft rule established a demand-based cost recovery approach. Any proceeds to AEMO would be distributed using the same approach.	No significant changes have been made to these provisions.

Table C.6: Improving transparency and accountability (Chapter 8)

Topic	Draft rule	Final rule
Notices	The draft rule integrated SoLR notices with the tiered signalling framework introduced by the ERSAA draft rule.	The final rule clarifies that AEMO must, in the notices for tendering and activating the SoLR service contracts, explain why its other functions would not be available (or would be

Topic	Draft rule	Final rule
		insufficient) to address a tier 3 threat.
Post-activation reporting	The draft rule established post-activation reporting of SoLR at one and four-month intervals for AEMO.	The final rule clarified these reports are to be published on AEMO's website.

Table C.7: Implementation and transitional arrangements (Chapter 9)

Topic	Draft rule	Final rule
Review of SoLR procedures and guidelines	The draft rule did not require a review of SoLR.	The final rule requires AEMO to complete a review (that includes public consultation) of SoLR procedures, guidelines, and relevant tender processes within 18 months of using SoLR for the first time.

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 proposed to extend AEMO's ECGS reliability and supply adequacy functions
MCE	Ministerial Council on Energy
MPC	Market price cap
NEL	National Electricity Law
NEO	National Electricity Objective
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
Proponent	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
VGCR	Value of gas customer reliability
VGPR	Victorian gas planning report
WTP	Willingness to pay