

4 November 2010

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

FROM THE OFFICE OF THE
CHIEF EXECUTIVE OFFICER

Level 22
530 Collins Street
Melbourne VIC 3000

Postal Address:
GPO Box 2008
Melbourne VIC 3001

T 1300 858724
F 03 9609 8010

Submitted online

John,
Dear Mr Pierce

Submission to Draft Rule Determination – National Gas Amendment (Dandenong Liquefied Natural Gas Storage Facility) Rule

AEMO welcomes the opportunity to respond to the AEMC's Draft Rule Determination – National Gas Amendment (Dandenong Liquefied Gas Storage Facility) Rule 2010. With the exception of the two issues raised below, in broad terms AEMO agrees with the AEMC's conclusions in the Draft Determination and the minor variations it has made to the rule amendments as originally proposed. However, AEMO retains some concerns over the following issues.

1. Declared LNG Storage Facility

We understand that the Victorian Department of Primary Industries might make a submission to the Draft Determination outlining its legal arguments on why the phrase "declared LNG Storage Provider" and similar, related terms should be retained. We have some policy reasons why the term should be retained.

The existing rules in clauses 278 to 286 of the NER are clearly intended to apply to this specific LNG storage facility. Likewise, the proposed amendments to the rules are only intended to apply to the existing Dandenong LNG facility and not generically to all future facilities owned and operated by LNG storage providers. The reason for this is that a new LNG facility might not perform the same functions as the Dandenong facility has historically provided. The location, size, capability and proposed use of any future LNG storage facility all play a part in determining whether a future facility can play the same role in the Victorian wholesale gas market that the Dandenong facility plays and therefore be subject to the same set of rules. It may be inappropriate to have the provider of a future storage facility governed by the same set of rules. In this vein, we point out that the Underground Storage facility (UGS) at Iona is a gas storage facility but the storage provider is not covered by, and it not meant to be covered by, the LNG or similar rules. This is because it plays a different role from the Dandenong LNG facility.

Consequently, AEMO believes that there is a strong case for the retention of the definition of the phrase "declared LNG Storage Provider" to differentiate the Dandenong facility's special status in the Victorian gas wholesale market from any future facility.

2. LNG Reserve

The AEMC has proposed that clause 281(2) be removed in its entirety from the NGR, reasoning that the suggested amendments amount to an “agreement to agree” and therefore difficult to enforce. While we would tend to agree that the proposed wording may lead to this conclusion, the intention was that should a reserve be required again, AEMO would have the right to require, and the declared LNG Storage Provider would be obliged to make available, an amount required by AEMO, up to 3000 tonnes. Hence the retention of the original opening words in the proposed rule that state “Unless and until AEMO otherwise agrees”. We believe that this shows an intention that AEMO has a right to require the reserve at an amount and price to be agreed. The existing rule (not the proposed rule) achieves this desired outcome but is a little obtuse because it mandates the reserve to be 3000 tonnes “Unless and until AEMO otherwise agrees”. The proposed rule improves on this by removing the reference to the 3000 tonnes but still making it subject to AEMO’s agreement.

We note that in the event of an emergency and depending on the circumstances, either of AEMO (as system operator) and ESV has the right to direct any participant (the LNG storage provider included) to inject gas as required. That being the case, AEMO would prefer that clause 281(2) as proposed be approved if only to evidence the intention that the declared LNG Storage Provider still has an obligation to make available the AEMO a reserve capacity as agreed by AEMO.

If you have any questions, please call Franc Cavoli on (03) 9609 8416.

Yours sincerely



Matt Zema
Managing Director and Chief Executive Officer