

DWGM INTERIM LNG STORAGE MEASURES RULE CHANGE

INFORMATION SESSION

2 SEPTEMBER 2022

AEMC

Acknowledgment of the country

'In the spirit of reconciliation, the AEMC acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community.

We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples here today.'

Agenda

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1. Overview
 2. Issues with current arrangements
 3. Key elements of proposed rule
 4. Treatment as urgent rule change
 5. Key dates
 6. Questions and answers
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Overview

- **Proponent:** Victorian Minister for Energy, Environment and Climate Action.
- **Purpose:** priority action agreed to by Energy Ministers that is intended to reduce the risks to system security and public safety and improve the reliability of supply in the DWGM between winter 2023 and 2025.
- **Proposal:** amend the National Gas Rules to:
 - Require AEMO to act as:
 - **buyer of last resort** for Dandenong LNG capacity & hold target level of LNG stock in winter months
 - **supplier of last resort** in relation to the use of its LNG stock in the Dandenong LNG facility.
 - Set out contractual, cost recovery, accountability and transparency arrangements to support the two roles.
- **What is the Dandenong LNG facility?**



- Owned by APA and located close to Melbourne at Dandenong city gate.
- Used to store LNG, which can be vaporised and injected quickly into the DTS to help:
 - alleviate short-term peaks, threats to system security and emergencies
 - manage the safe system shutdown, where required.
- Storage capacity: 680 TJ, Vaporisation rate: 9.8 TJ/hour, Refill rate: 0.34 TJ/hour

PROBLEMS THE RULE CHANGE ARE TRYING TO ADDRESS

VICTORIAN DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

The problems the rule change is seeking to address

Addresses gaps in national framework – clarifies AEMO's role in respect of holding an LNG reserve

The context and need for Dandenong LNG is changing. AEMO and ACCC supply forecasts of significant concern:

- Declining supply from legacy fields and reduced system resilience
- Risks increasing for winter 2023 and onwards
- Inadequate response to AEMO threat to system security notices two years running

Need to ensure all available and timely options can be brought to bear:

- Addressing underutilisation of the critical Dandenong LNG facility
- Proposed for 3-year period to address immediate risk while broader reforms under development

Need greater clarity around Dandenong LNG arrangements to ensure effective use:

- Who can hold what in the tank and for what purposes
- How any such gas will interact with the market (scheduling, pricing, cost recovery etc.)

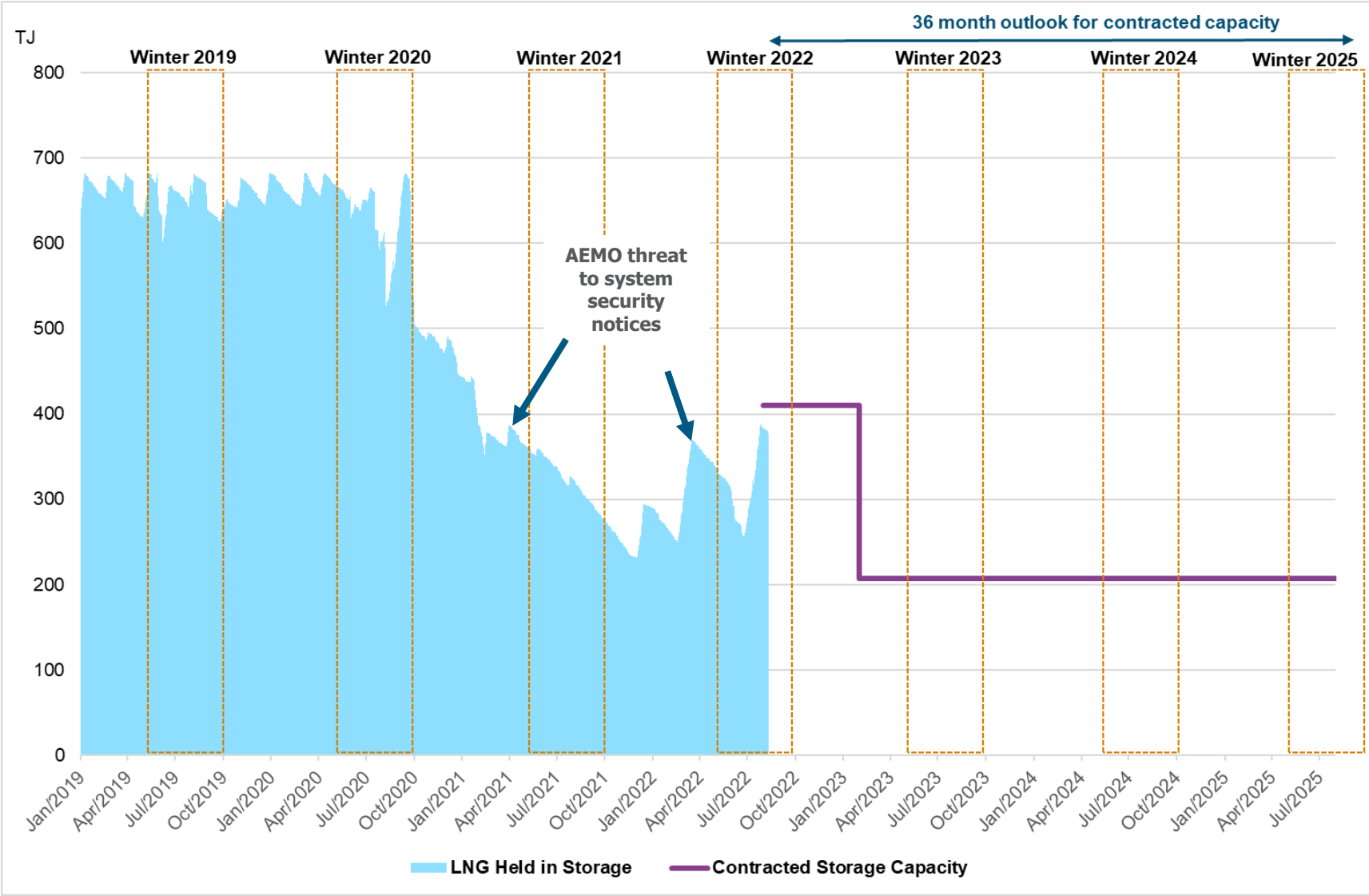
Need to ensure that opportunities and incentives for market participants to hold their own gas are maintained, while improving support for security and reliability of supply:

- AEMO only intended to act as buyer and supplier of last resort, not as a market participant

KEY ELEMENTS OF PROPOSED RULE

KATHERINE LOWE

Dandenong LNG contracted levels



Source: Gas Bulletin Board (actuals + 36 month outlook), accessed early August 2022.

Key elements of the proposed rule

<p>AEMO as buyer of last resort</p>	<p>Procurement of uncontracted storage capacity AEMO must contract any uncontracted LNG storage capacity for winter that is available at the end of 15 March and may contract any additional uncontracted capacity that becomes available after.</p>	<p>Winter target level LNG stock target level is:</p> <ul style="list-style-type: none"> • the highest level reasonably possible, or • such other level determined by AEMO and approved by the Victorian Minister.
<p>Procurement of gas to fill LNG storage AEMO must purchase gas for storage & vapourisation with objective of achieving and maintaining LNG stock at target level during winter.</p>		
<p>Relinquishment to other market participants</p> <ul style="list-style-type: none"> • AEMO may relinquish storage capacity to LNG storage provider if a market participant acquires or proposes to acquire the capacity • AEMO may transfer LNG stock to a market participant if that participant has acquired a right to store the stock in the LNG facility 		
<p>AEMO as supplier of last resort</p>	<p>Use of LNG reserve AEMO may use LNG reserve at such times and quantities it considers reasonably necessary, or desirable, to ensure security of the DTS and satisfy operational requirements.</p>	<p>Supplier of last resort principles</p> <ul style="list-style-type: none"> • AEMO's LNG stock is to ordinarily be scheduled after other market participants • AEMO's injection bids from LNG reserve must be at VoLL (i.e. \$800/GJ)
<p>Procedures The Gas scheduling procedures must set out the procedures relating to the use of the LNG reserve, which must give effect to the supplier of last resort principles</p>		
<p>Contractual arrangements</p>	<p>Storage agreement requirements LNG storage agreement must be in place at all times and allow AEMO to:</p> <ul style="list-style-type: none"> • contract uncontracted LNG storage capacity in periods of relevant year and to the extent AEMO considers necessary or convenient to satisfy its buyer of last resort obligations • relinquish capacity if a market participant acquires or proposes to acquire capacity. 	<p>Terms of LNG storage agreement To be on substantially the same terms as AEMO's winter 2022 agreement, except to the extent changes:</p> <ul style="list-style-type: none"> • are reasonably necessary to: <ul style="list-style-type: none"> ○ give effect to changes necessary for the facility's safe and reliable operation ○ ensure consistency with relevant rules • reflect changes in inflation • give effect to changes of law. <p>LNG storage provider must negotiate in good faith and comply with offer requirements.</p>
<p>Role of AER: AER could take enforcement action if storage agreement requirements not met.</p>		
<p>Cost recovery</p>	<p>AEMO to be able to recover:</p> <ul style="list-style-type: none"> • Costs of acquiring LNG storage capacity through Participant Fees • Losses /proceeds from use of LNG reserve through linepack account 	
<p>Accountability & transparency</p>	<p>AEMO to publish information on:</p> <ul style="list-style-type: none"> • the amount of storage capacity it contracts • any storage capacity it relinquishes and any LNG stock transferred 	

AEMO as buyer of last resort

Key elements of the proposed rule

Procurement of uncontracted storage capacity

- AEMO must contract any **uncontracted LNG storage** capacity for winter that is available at the end of 15 March and may contract any additional uncontracted capacity that becomes available after that date.

Procurement of gas to fill LNG storage

- AEMO must purchase gas for storage and vaporisation with objective of maintaining LNG stock at **target level** in winter.

Winter target level:

- the highest level reasonably possible, or
- such other level determined by AEMO and approved by the Victorian Minister

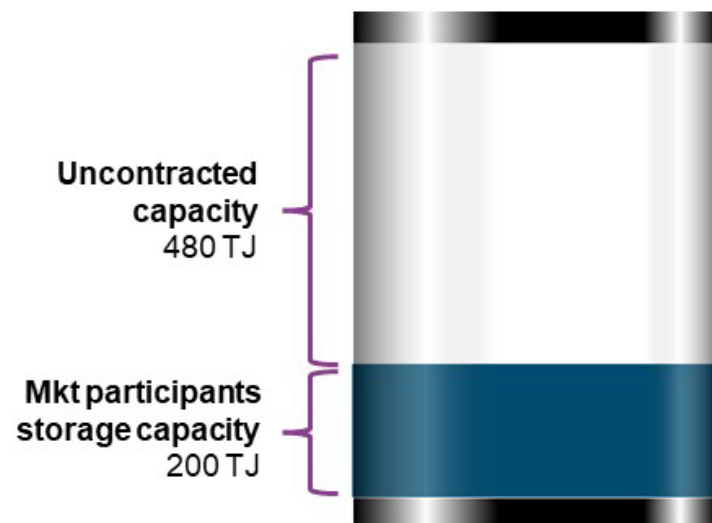
Relinquishment of storage capacity and stock

- AEMO may:
 - relinquish storage capacity to LNG storage provider if a market participant acquires or proposes to acquire the capacity
 - transfer LNG stock to a market participant if that participant has acquired a right to store the stock in the LNG facility.

AEMO as buyer of last resort – illustrative example

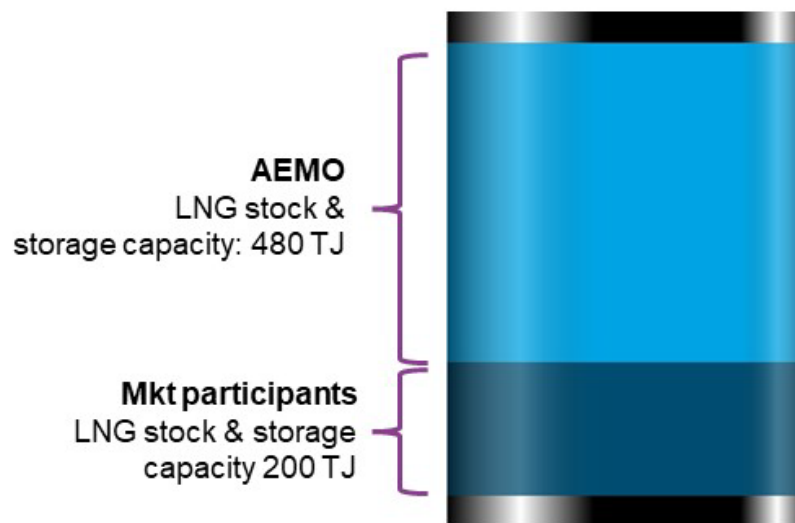
Key elements of the proposed rule

Uncontracted capacity at 15 March



AEMO to procure any uncontracted storage capacity as at end of 15 March and may procure any additional capacity that becomes available after this date

AEMO fills its capacity prior to winter



AEMO to procure gas & vaporisation with objective to achieve and maintain target level in winter months

AEMO as supplier of last resort

Key elements of the proposed rule



Use of LNG reserve

- AEMO may use LNG reserve at such times and quantities it considers reasonably necessary, or desirable, to ensure security of the DTS and to satisfy operational requirements.

Supplier of last resort

- Gas scheduling procedures must set out use of LNG reserve procedures and give effect to the supplier of last resort principles.

Supplier of last resort principles

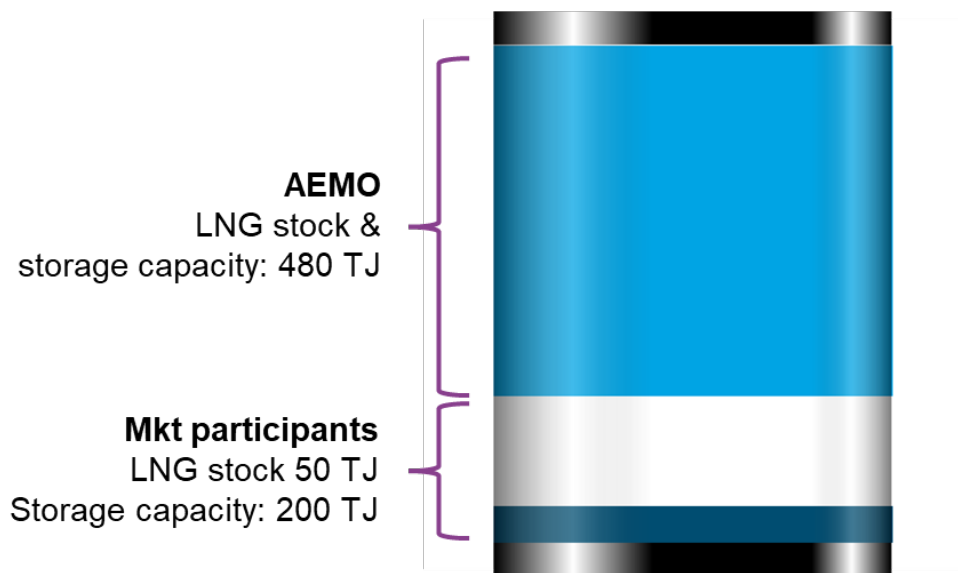
- AEMO's LNG stock is to ordinarily be scheduled after other market participants
- AEMO's injection bids from LNG reserve must be at VoLL (i.e. \$800/GJ)

AEMO as supplier of last resort – illustrative example

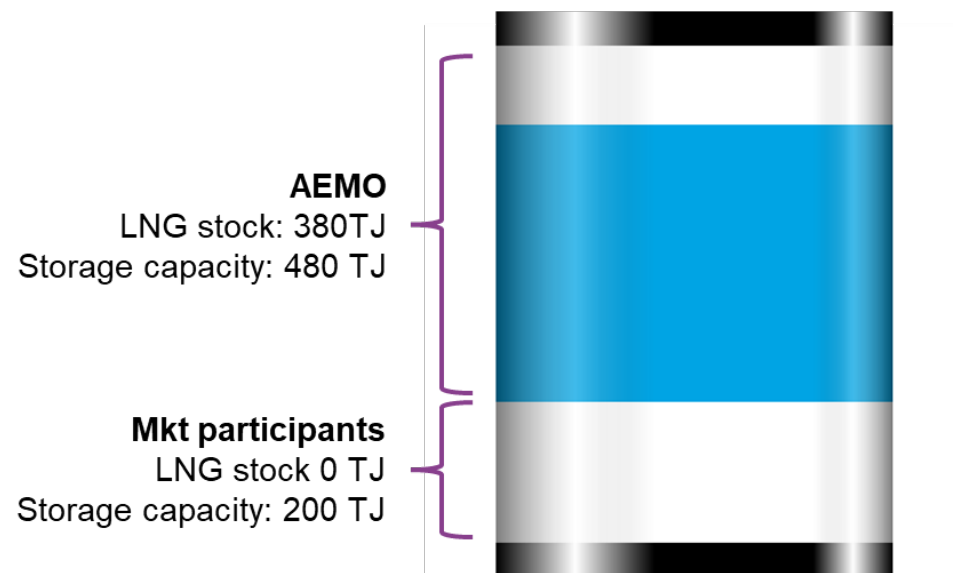
Key elements of the proposed rule

AEMO as supplier of last resort from LNG

Peak day 1 (requiring 150 TJ of LNG):
Market participants bid in 150 TJ, which is scheduled. AEMO's LNG stock is not required



Peak day 2 (requiring 150 TJ of LNG):
Market participants' bid in remaining 50 TJ and AEMO bids in 100 TJ of its LNG stock at \$800/GJ



AEMO's LNG stock to ordinarily be scheduled after other market participants and injected in at VoLL (\$800/GJ)

Contractual arrangements

Key elements of the proposed rule



Storage agreement requirements

LNG storage agreement must be in place at all times and allow AEMO to:

- contract uncontracted LNG storage capacity during the periods of the relevant year, and to the extent AEMO considers necessary or convenient to satisfy its buyer of last resort obligations
- relinquish capacity if a market participant acquires or proposes to acquire capacity.

Terms of LNG storage agreement

To be on substantially the same terms as AEMO's winter 2022 agreement, except to the extent changes:

- are reasonably necessary to:
 - give effect to changes in operational and technical requirements necessary for the facility's safe and reliable operation
 - ensure consistency with relevant rules
- reflect changes in inflation
- give effect to changes of law.

LNG storage provider must negotiate in good faith and comply with offer requirements.

The 2022 agreement can be found on the AEMC's website.

Role of AER: AER could take enforcement action if storage agreement requirements not met.

Cost recovery, accountability and transparency

Key elements of the proposed rule

Cost recovery

AEMO to be able to recover:

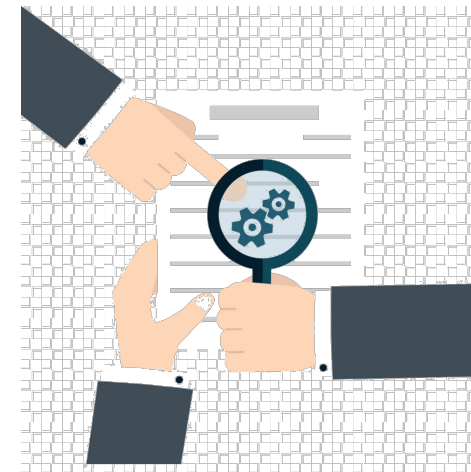
- Costs of acquiring LNG storage capacity through participant fees (which it must consult on using standard consultative procedure)
- Losses /proceeds from use of LNG reserve through linepack account



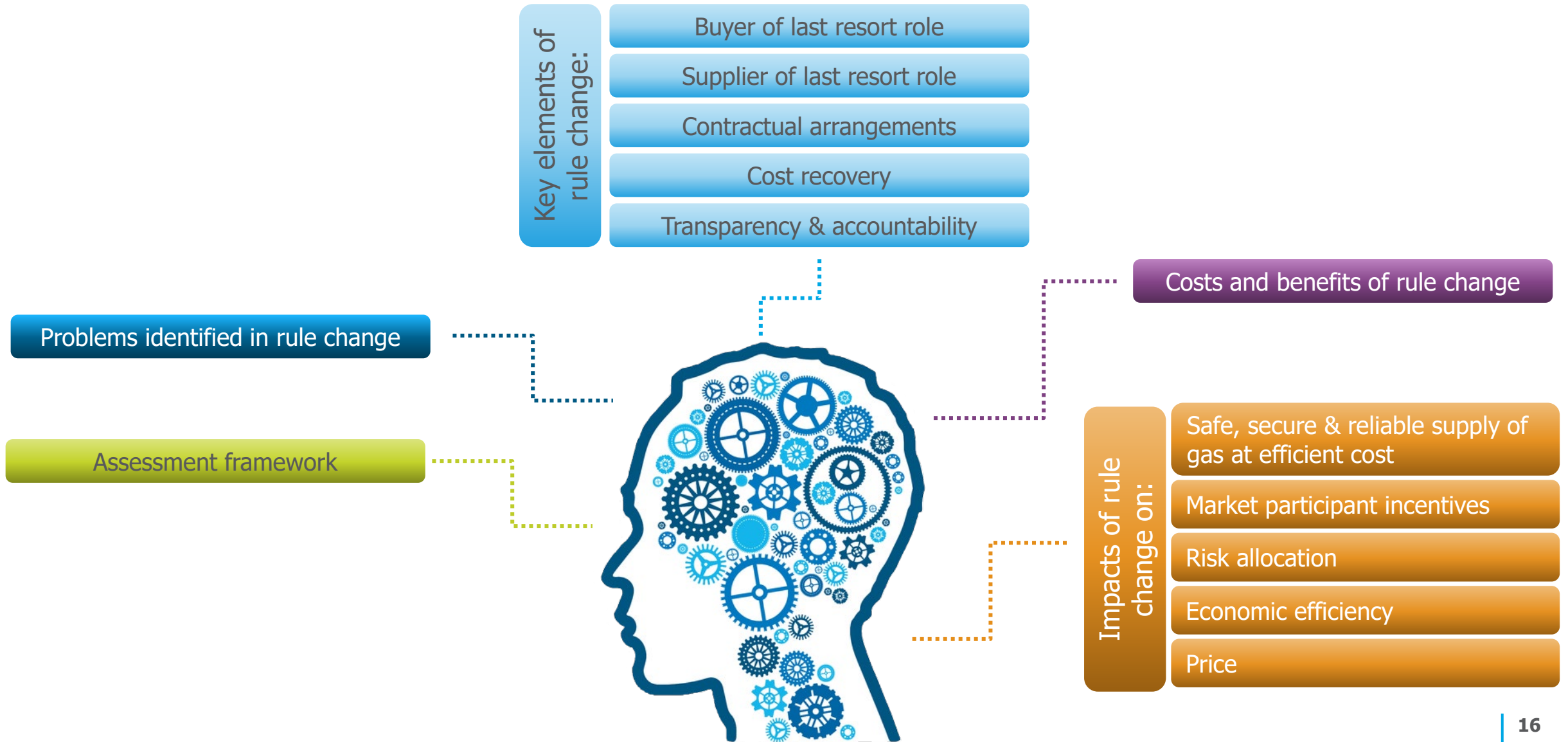
Accountability and transparency

AEMO to publish information on:

- the amount of storage capacity it contracts
- any storage capacity it relinquishes and any LNG stock transferred



Areas the AEMC is looking for feedback on



TREATMENT AS URGENT RULE AND NEXT STEPS

Treatment as urgent rule change

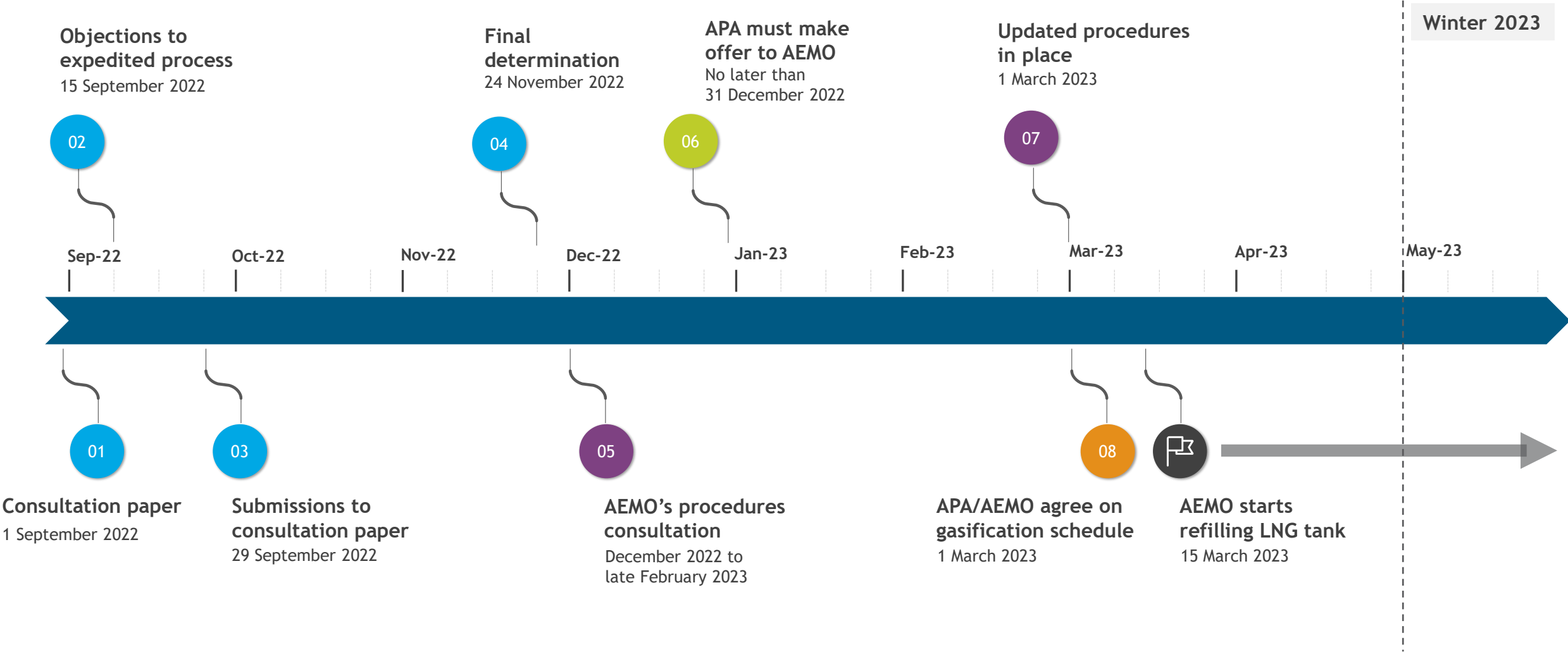
- The Victorian Minister requested that the proposed rule change proceeds under the expedited process.
- Section 290 of the NGL, defines an urgent rule as

"if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening the effective operation or administration of a regulated gas market operated and administered by AEMO; or the supply of gas".

- The Commission considers the rule change meets the definition.*
- Stakeholders can object to the use of the expedited process by **15 September 2022**.
- To be valid, an objection should set out the reasons why the rule change request is not an urgent rule and should not be assessed using the expedited process. (This is unrelated to the question of whether the proposed rule should be made.)
- Please contact the project team if you are considering making an objection to the expedited process.

* The Commission has initiated an extended expedited rule change process totaling 12 weeks rather than the usual 8 weeks.

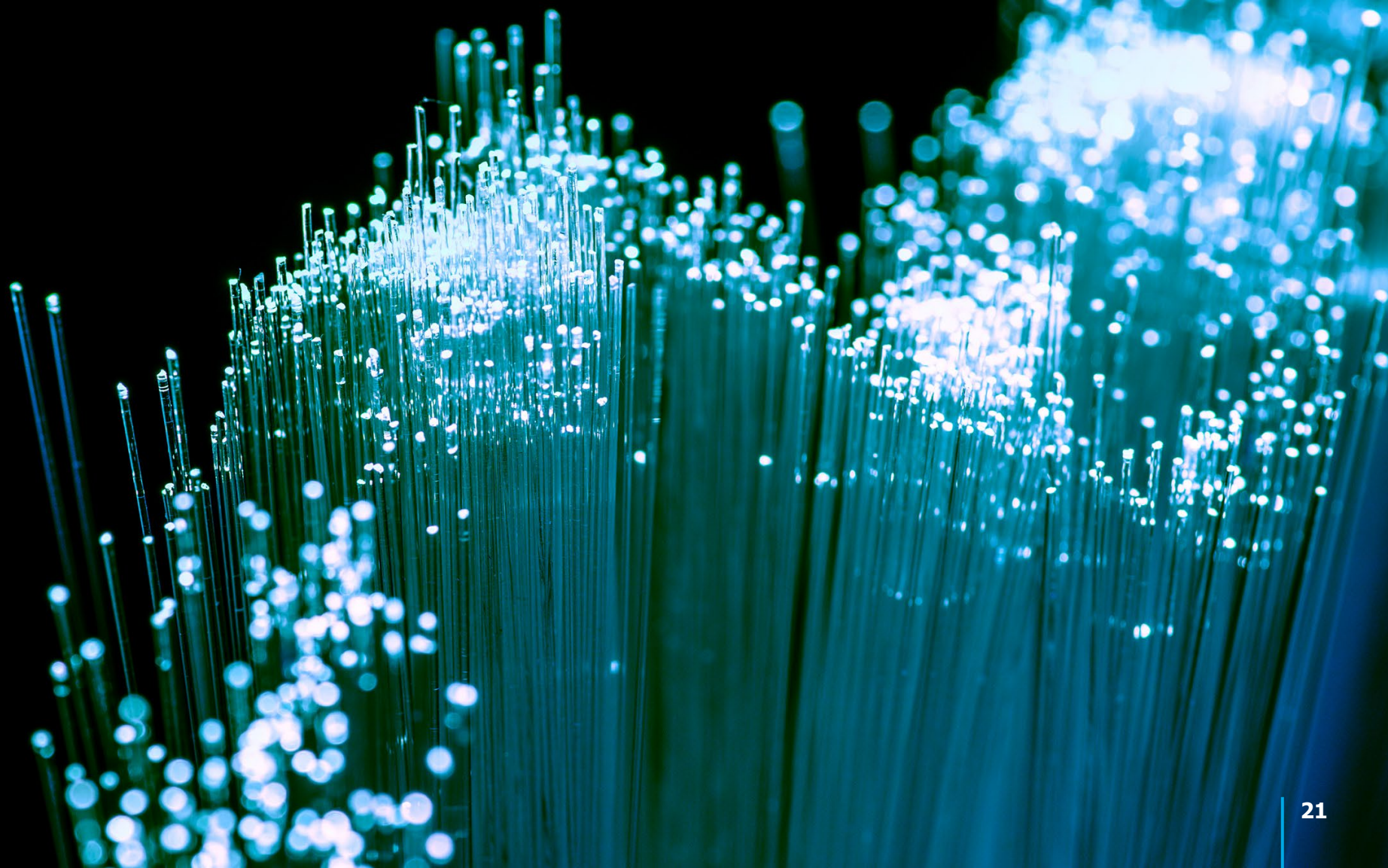
Key dates



Next steps

Milestone	Dates
Consultation paper published	1 September 2022
Information session	2 September 2022
Objections to expedited process <i>(2 weeks)</i>	15 September 2022
Close of first round submissions <i>(4 weeks)</i>	29 September 2022
Final determination published <i>(8 weeks, rather than 4)</i>	24 November 2022
Approximate implementation date	1 March 2023

Q&A



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Link to project page ([here](#))

**Objections to the expedited process are due on 15 September 2022.
Submissions to the consultation paper close Thursday 29 September 2022.**