

# DWGM INTERIM LNG STORAGE MEASURES RULE CHANGE

STAKEHOLDER WORKSHOP

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28 OCTOBER 2022

AEMC

## Privacy collection statement

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This may include contacting you to discuss your questions or feedback, or issues raised by other participants during the forum.

By participating in this workshop, you will have given your consent to our collection, use and disclosure of your personal information in this way.

## Acknowledgment of the country

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'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.'

## Before we start, an important notice: Compliance with Competition Law

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- The attendees must not discuss, or reach or give effect to any agreement or understanding which relates to:
  - Pricing
  - Targeting markets or customers
  - Tendering processes
  - Boycotting other parties
  - Sharing competitively sensitive information
  - Breaching confidentiality obligations

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Each entity must make an independent and unilateral decision about their commercial positions.

# Agenda

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1. Recap of proposed rule change
  2. Key elements of proposed rule
  3. Policy options for key elements of proposed rule
    - AEMO as buyer of last resort (Q&A break 1)
    - AEMO as supplier of last resort (Q&A break 2)
    - Cost recovery, transparency and accountability (Q&A break 3)
  4. Wrap up
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# POLICY OPTIONS FOR KEY ELEMENTS OF PROPOSED RULE

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KATHERINE LOWE

## Recap of rule change

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- **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 and 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 these roles.

# AEMO as buyer of last resort for the Dandenong LNG facility

## Rule change request

### AEMO as buyer of last resort

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

**Procurement of gas to fill LNG storage:** AEMO must purchase gas for storage & vaporisation with the objective of achieving and maintaining LNG stock at **target level** during winter.

**Relinquishment to other market participants:** AEMO may relinquish storage capacity to LNG storage provider if a market participant acquires/proposes to acquire the capacity and may transfer LNG stock to the acquiring market participant.

### Winter target level for LNG stock

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

## Issues raised

1. Amount of storage capacity to be procured
2. Timing for filling AEMO's storage capacity
3. Target level for LNG stock
4. Price at which LNG stock transfers occur



# Policy options: Storage capacity to be procured

*AEMO as buyer of last resort*

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**Rule change request:** proposed rule 282(4) provides for AEMO to contract all the uncontracted capacity as of 15 March.

**Issues raised:** a number of stakeholders noted the potential for the contracting of all uncontracted storage capacity to result in consumers paying for LNG that is never required. To address this, stakeholders suggested that AEMO only contract what it forecasts is required, with the forecast to be developed through a consultative process.

## **Policy options:**

- **Option (a):** retain the proposed approach (i.e. AEMO procures all the uncontracted capacity)
- **Option (b):** require AEMO to estimate how much DLNG storage capacity is required through a consultative process and to contract only that amount
- **Option (c):** option (a) for 2023 and option (b) for 2024 and 2025.

The latter option recognises that there may not be sufficient time for AEMO to develop a forecast ahead of winter 2023, noting the potential for the rule not to be made until mid-December and a forecast to be in place by mid-March.

## **Matters for further consideration:**

- Can AEMO develop robust forecasts of how much to contract in the absence of a reliability standard?
- Is the difference between the uncontracted amount and any forecast AEMO develops likely to be sufficient to warrant the additional costs associated with developing and consulting on the forecasts?

# Policy options: Time to fill the tank

## *AEMO as buyer of last resort*

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**Rule change request:** proposed rule 282(4) requires the amount that AEMO is to contract to be determined as of 15 March. Transitional rule (1), which sets out the timing for AEMO and APA to enter into contracts and agree to the liquefaction schedule, also refers to AEMO commencing storage of LNG on and from 15 March.

**Issues raised:** two stakeholders noted the 15 March timing may not provide AEMO sufficient time to fill its reserve before winter and suggested that either the timing be brought forward to 1 March, or some flexibility is provided for filling the tank.

### **Policy options:**

- **Option (a):** retain the proposed timing (i.e. 15 March).
- **Option (b):** bring forward the date to 1 March and make associated changes to the contracting and liquefaction scheduling dates.

Option (b) is not expected to alter the ability of market participants to procure capacity, because the proposed rule provides for AEMO to relinquish storage capacity if a market participant wants to contract that capacity.

It would, however, provide more time to fill AEMO's capacity and any other participant that may be trying to fill their capacity.

# Policy options: Target level

## *AEMO as buyer of last resort*

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**Rule change request:** proposed rule 282 requires AEMO to purchase gas with the objective of achieving and maintaining LNG stock in winter at the highest level reasonably possible, or another level determined by AEMO and approved by the Minister (**target level**).

**Issues raised:** the key questions raised about the target level are whether:

- the target should only apply in winter given Longford outages are expected in summer?
- AEMO should be required to:
  - maintain the target throughout winter?
  - meet the target at the beginning of winter?

It was also suggested that the definition of the target be clarified to recognise that it only applies to AEMO's storage capacity.

### **Policy options:**

- **Option (a):** retain the proposed approach (i.e. the target level applies over winter and is linked to the size of the tank)
- **Option (b):** amend the target level provisions to:
  - only require the target to be met at the beginning of winter and allow AEMO to determine if and when it should be refilled
  - clarify that the target only applies to AEMO's contracted capacity.

Option (b) is consistent with the intent of the proposed rule (i.e. that the tank is full going into winter) but would also provide AEMO more flexibility to consider whether the tank should be refilled during winter, having regard to market conditions.

# Policy options: Transfers of LNG stock

*AEMO as buyer of last resort*

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**Rule change request:** proposed rule 286(2) states that:

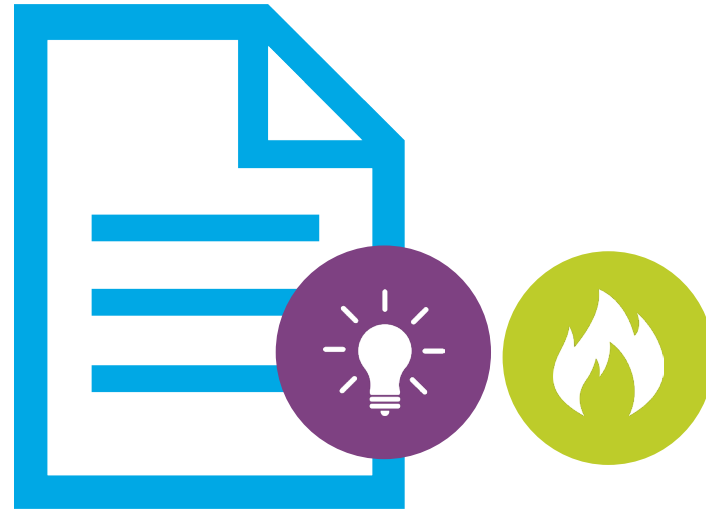
*AEMO may, in accordance with the LNG reserve procedures, transfer to a market participant LNG stock held on behalf of AEMO if the market participant has acquired the right to store the stock in the facility*

**Issues raised:** under the proposed rule, information on the price at which AEMO would transfer its LNG stock to a market participant that procures some of its relinquished capacity would be set out in the LNG reserve procedures. However, some stakeholders suggested the rules set out the price at which AEMO would transfer stock.

## **Policy options:**

- **Option (a):** retain the proposed approach (i.e. with AEMO setting out the price details in procedures)
- **Option (b):** specify in the rules that the price of any LNG stock transfer is to be based on the 6 am market price on the day the capacity relinquishment occurs.

Option (b) would provide market participants and AEMO more clarity about the way in which LNG transfers are to occur.



## Q&A

*AEMO as buyer of last resort*

# Questions for stakeholders

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## **Storage capacity to be procured**

- Would AEMO be able to develop robust forecasts of how much to contract in the absence of a reliability standard?
- Is the difference between the uncontracted amount and any forecast AEMO develops likely to be sufficient to warrant the additional costs associated with developing and consulting on the forecasts?
- Is there sufficient time for AEMO to develop a forecast ahead of 2023, noting the potential for the rule not to be made until mid-December and a forecast to be in place by mid-March? Or is this is only a viable option for winters 2024 and 2025?

# Questions for stakeholders

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## **Time to fill the tank**

Are there any risks or issues associated with bringing forward the date used to determine how much to contract to 1 March that we should be aware of?

## **Target level**

Do you have any concerns with the proposal to only require the target level to be met at the beginning of winter and to allow AEMO to determine if and when it should be refilled?

## **LNG stock transfers**

Could there be any unintended consequences if the rules specify the price for any LNG stock transfer is to be based on the 6 am market price on the day the capacity relinquishment occurs?

# AEMO as supplier of last resort for the Dandenong LNG facility

## Rule change request

<b>AEMO as supplier of last resort</b>	<b>Use of LNG reserve:</b> AEMO may use the LNG reserve at such times and quantities it considers reasonably necessary, or desirable, to ensure security of the DTS and satisfy operational requirements.	<b>Supplier of last resort principles</b> A. AEMO's injection bids from LNG reserve must be at VoLL B. AEMO's LNG stock is to ordinarily be scheduled after other market participants' LNG stock
	<b>Procedures:</b> 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 and may also deal with other specified matters.	

## Issues raised

1. The requirement for AEMO to bid its LNG stock in at VoLL
2. The potential for AEMO to have to dispose of LNG stock for reasons unrelated to security, reliability or emergencies
3. The scheduling of AEMO's LNG stock relative to other market participants' stock



# Policy options: Requirement to bid in at VoLL

*AEMO as supplier of last resort*

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**Rule change request:** proposed rule 285(3)(b) states that the gas scheduling procedures:

*must provide for AEMO to place bids for injections of gas from the LNG reserve at a price equal to VoLL*

**Issues raised:** stakeholders raised concerns about the potential for the requirement for AEMO to bid its LNG stock into the market at VoLL to result in AEMO competing with other market participants.

Mixed suggestions from stakeholders have been received on how to address these concerns:

- AEMO either bid in at a price above VoLL (e.g. \$800.001) or reduce the maximum bid for market participants to \$799.99
- AEMO be required to direct its LNG stock into the market rather than bidding it in
- Different approaches may be appropriate for reliability *vis-à-vis* system security and emergencies.

## **Policy options:**

- **Option (a):** retain the proposed approach (i.e. AEMO to bid in at VoLL)
- **Option (b):** require AEMO to bid its LNG stock at VoLL but put in place other measures to prevent its bids from competing with market participants' bids or limiting the impact
- **Option (c):** require AEMO to direct its LNG stock rather than bidding it
- **Option (d):** option (b) but recognise AEMO can also direct its LNG stock where appropriate (e.g. for safe system shut down).

The latter option could provide more flexibility in the arrangements.

# Policy options: Disposals of LNG stock for other reasons

## *AEMO as supplier of last resort*

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**Rule change request:** proposed rule 285 states that AEMO may use the LNG reserve to ensure security of the DTS and to satisfy its operational requirements.

**Issues raised:** questions have been raised about whether the rule recognises that AEMO may need to dispose of stock for reasons unrelated to system security, emergencies or reliability. For example, if:

- the LNG tank is undergoing maintenance and some of the LNG stock must be removed
- AEMO is required to relinquish capacity to another market participant that decides not to take AEMO's LNG stock
- AEMO must dispose of its LNG stock at the end of the term of the rule.

Related to this issue, is the question of what price AEMO should bid its LNG stock into the market under these circumstances.

### **Policy options:**

- **Option (a):** retain the current approach.
- **Option (b):** amend the rule drafting to:
  - recognise there may be circumstances in which AEMO has to dispose of some (or all) of its stock for reasons other than system security, emergencies or reliability
  - require AEMO, in these circumstances, to bid its LNG stock at \$0 and take steps to minimise the impact on the market (for example, by disposing of it over multiple days).

The latter option recognises some flexibility is required in the arrangements, but provides AEMO and market participants guidance on what is to occur in those situations.

# Policy options: Scheduling of AEMO's LNG stock

*AEMO as supplier of last resort*

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**Rule change request:** proposed rule 285(3)(a) states that gas scheduling procedures must give effect to the principle that:

*LNG stock held on behalf of AEMO should **ordinarily** be scheduled after LNG stock held on behalf of other market participants*

**Issues raised:** concerns have been raised about the use of the term 'ordinarily' in this proposed rule, with stakeholders suggesting it could lead to AEMO's stock being scheduled ahead of market participants' and undermine the incentive to hold DLNG capacity. To address this, it was suggested the rule be amended to make clear that AEMO's LNG stock **must** be scheduled after other market participants' scheduled LNG stock.

## **Policy options:**

- **Option (a):** retain the proposed drafting of rule 285(3)(a).
- **Option (b):** amend the drafting to make it clearer that AEMO's stock must be scheduled after any LNG stock that is held by other market participants that has also been scheduled.

Option (b) is more consistent with the supplier of last resort principle and would provide market participants that hold LNG stock more confidence that their stock will be scheduled ahead of AEMO's if they bid in on a gas day.



## Q&A

*AEMO as supplier of last resort*

# Questions for stakeholders

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## Requirement to bid in at VoLL

- Does the proposal for AEMO to bid its LNG stock at VoLL in combination with bid accreditation reduce stakeholders' concerns about the potential for AEMO to compete with market participants?
- Are there specific circumstances in which AEMO should be required to direct its LNG reserve versus bidding it, or should the rules acknowledge that AEMO may also direct its LNG reserve?
- Would there be any consequences if AEMO was just required to direct its LNG reserve in (e.g. would this have any impact on market participants' incentives to hold LNG in the tank or to hedge against reliability risks)?

# Questions for stakeholders

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## Disposals of LNG stock for other reasons

Should the rules recognise that:

- a) There may be circumstances in which AEMO must dispose of some (or all) of its stock for reasons that are unrelated to system security, emergencies or reliability?
- b) If this occurs, should AEMO:
  - i. bid its LNG stock into the market at \$0, and
  - ii. be required to minimise the impact on the market?

## Scheduling of AEMO stock

Is there any risk associated with amending the supplier of last resort principles to make it clear that AEMO's LNG stock **must** be scheduled after other market participants' scheduled LNG stock?

# Cost recovery

## Rule change request

### Cost recovery

AEMO to be able to recover:

- Costs of acquiring LNG storage capacity through **participant fees**
- Losses and proceeds from use of LNG reserve through **linepack account**

**Issues raised:** stakeholders questioned the proposed use of the linepack account, suggesting that, to the extent possible, a causer or beneficiary pays approach should be used. Some stakeholders suggested winter demand or net withdrawals could be a good proxy.

### Policy options:

- **Option (a):** retain the proposed approach (i.e. two cost recovery mechanisms)
- **Option (b):** recover all the costs net of any proceeds received (net costs) through either:
  - market participant fees, or
  - another cost recovery mechanism that provides for a more frequent allocation of net costs.

### Matters for further consideration:

- If the requirement for users of the LNG reserve to pay \$800 results in the 'causer paying' for their use of the LNG reserve, who should pay if the LNG reserve is not used (i.e. should these costs be socialised across all market participants, or is there a particular group that benefits most from the maintenance of the LNG reserve)?
- Is it necessary to distinguish between different types of costs, or could a single cost recovery mechanism be used?
- If a single cost recovery mechanism is used, could we just use the market participant fees, or is an alternative cost recovery mechanism required?
- What is the most appropriate cost allocator to use (e.g. gross or net withdrawals over the year or over specific periods of the year)?
- Is there a timing mismatch between costs incurred and proceeds received? If so, how should this be dealt with?
- What will happen if the proceeds AEMO generates significantly exceeds the costs?

# Accountability and transparency

## Rule change request

### Accountability & transparency

AEMO to publish information on:

- the amount of storage capacity it contracts (proposed rule 282(8))
- any storage capacity it relinquishes and any LNG stock transferred (proposed rule 286(3))

**Issues raised:** stakeholders suggested the transparency arrangements be amended to require AEMO to:

- a. notify the market when it is likely to procure gas to fill the tank
- b. provide more detail on its contracting and use of the LNG reserve
- c. include a separate line item for costs in settlement statements (AEMO has advised this would be costly to implement)
- d. notify the market when it intends to use the LNG reserve (note that if AEMO's use of the power is treated as an intervention, it will have to publish TTSS notices and intervention reports)

### Policy options:

- **Option (a):** retain the proposed approach.
- **Option (b):** require AEMO to:
  - i. notify the market when it is likely to fill the tank through the publication of each liquefaction schedule agreed with APA
  - ii. report biannually on its contracting and use of the LNG reserve, including information on:
    - how much capacity and LNG stock it holds ahead of the winter and summer periods
    - what has occurred in the last 6 months in terms of the use of the LNG reserve, costs incurred, proceeds received and how net costs have been recovered from participants.





## Q&A

*Accountability, transparency and  
cost recovery*

# Questions for stakeholders

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## Cost recovery

1. Who should pay for the LNG reserve if it is not used (i.e. should these costs be socialised across all market participants, or is there a particular group that benefits most from the maintenance of the LNG reserve)?
2. Are there benefits in moving to a single cost recovery mechanism and, if so, should the market participant fee mechanism be used, or is a new cost recovery mechanism required?
3. What is the most appropriate cost allocator to use in this context (e.g. gross withdrawals, net withdrawals)?
4. How should the mismatch between costs incurred and proceeds received be dealt with?
5. What should occur if the proceeds AEMO generates significantly exceed the costs?

# Questions for stakeholders

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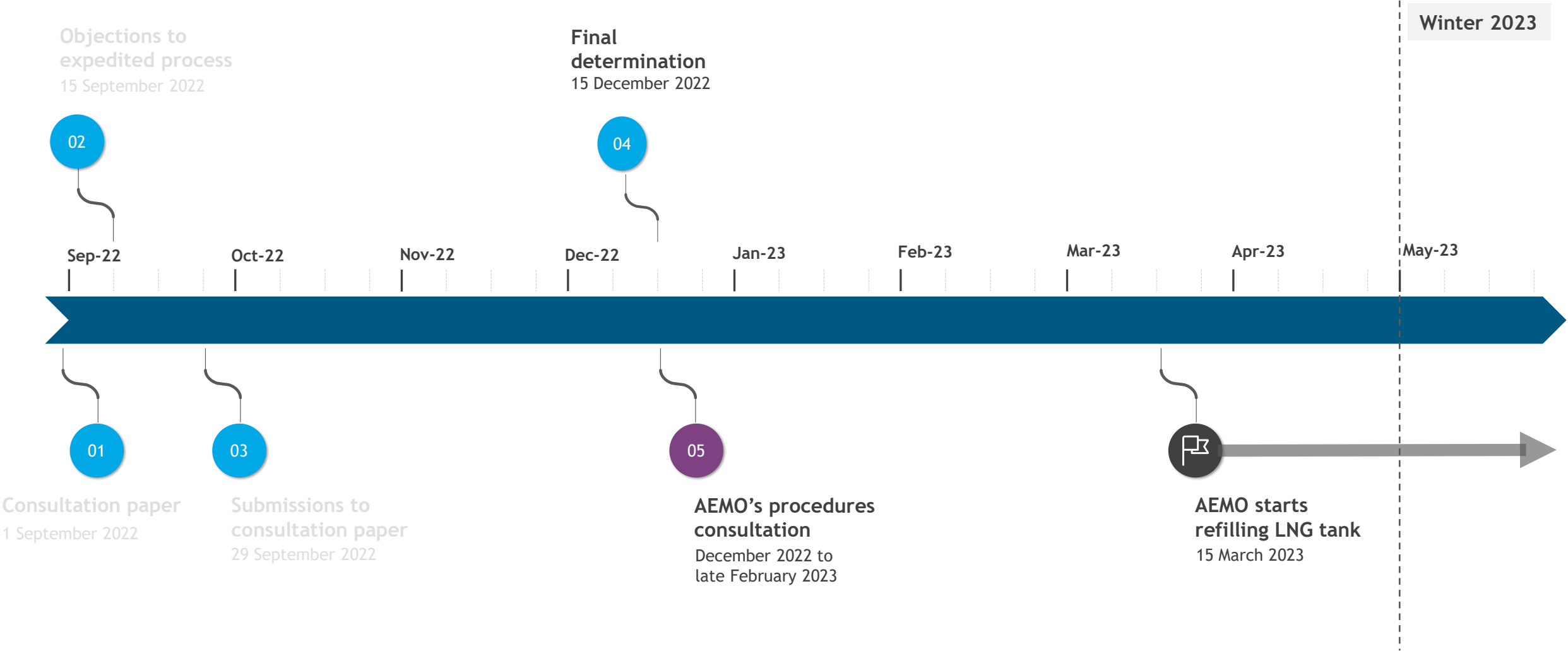
## Accountability and transparency

1. Do you agree with the proposals to require AEMO to:
  - i. notify the market when it is likely to fill the tank through the publication of each liquefaction schedule agreed with APA?
  - ii. report biannually on its contracting and use of the LNG reserve, including information on:
    - how much capacity and LNG stock it holds ahead of the winter and summer periods?
    - what has occurred in the last 6 months in terms of the use of the LNG reserve, costs incurred, proceeds received and how net costs have been recovered from participants?
  
2. Are any additional transparency or accountability measures required?

# WRAP UP



# Key dates



## AEMC contact details

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