



29 September 2022

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DWGM INTERIM LNG STORAGE MEASURES

The ACCC welcomes the opportunity to provide a submission to the AEMC's consultation on proposed interim LNG storage measures (provided in attachment A).

The ACCC recognises the system security and reliability issues set out by the Victorian Government in their urgent rule change request and supports the proposed rule change as an interim measure to address these issues.

In July 2022, the ACCC reported on the decline in contracted capacity at the Dandenong LNG facility, noting that it coincided with a change in APA's contracting model which saw significant price increases for both storage and vaporisation for some users of the facility. The ACCC is currently consulting with users of the facility to better understand whether the change in contracting model and increase in prices directly contributed to a decrease in contracted capacity.

While the ACCC supports the rule change request, the requirement for AEMO to contract all uncontracted capacity in the Dandenong LNG facility may increase costs to gas consumers beyond those required to mitigate the identified risks. The level of capacity acquired by AEMO should rather be informed by AEMO's modelling of the volume of LNG storage required to mitigate system security and reliability risks.

The ACCC will continue to monitor these key issues relating to the Dandenong LNG storage facility over the coming months and in advance of our January 2023 interim report.

We welcome any further questions in relation to this submission.

Yours sincerely

Anna Brakey
Commissioner
Australian Competition and Consumer Commission

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STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

ORGANISATION: Australian Competition and Consumer Commission

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DATE 29 September 2022

PROJECT DETAILS

NAME OF RULE CHANGE: DWGM interim LNG storage measures

PROJECT CODE: GRC0065

PROPONENT: Victorian Minister for Energy, Environment and Climate Action

SUBMISSION DUE DATE: 29 September 2022

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CHAPTER 4 – ASSESSMENT FRAMEWORK

1. Is the proposed assessment framework appropriate for considering the rule change request? Are there any other matters that should be included?	The ACCC considers the proposed assessment framework is broadly appropriate for considering the rule change request.
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CHAPTER 5 – ISSUES FOR CONSULTATION

PROBLEM STATEMENT	
2. Do you agree with each of the problems identified in the rule change request (noting the delineation between the safety and system security related problems and the reliability related problems)? If so, do you agree that they need to be addressed prior to winter 2023?	The ACCC agrees with the problems identified in the rule change request and the need to address these prior to winter 2023.
3. What do you think the underlying source of the problem is (i.e. why isn't the Dandenong LNG facility being filled in the way it used to and why aren't market participants responding to AEMO's threat to system security notices)?	The ACCC previously reported on the decline in contracted capacity at the Dandenong LNG facility. This decline coincided with a change in APA's contracting model and an increase in effective prices for both storage and vaporisation. The ACCC is currently consulting with users on the facility to better understand the decline in contracted capacity and will report relevant findings in its Gas Inquiry 2017-2025, interim report, January 2023.
4. How material do you think the identified problems are and what impact could they have on the following (distinguishing where possible between the safety and system security related problems and the reliability related problems):	
a. the supply of gas in Victoria?	
b. the operation of the DWGM?	
c. the safety of the infrastructure?	
5. What do you think would happen if nothing is done to address the identified problems?	

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PROPOSED SOLUTION	
6. Do you think the proposed solution is the most appropriate way to address the identified problems, or is there another more effective solution that could be implemented prior to winter 2023 (including non-rules based solutions)?	<p>The ACCC broadly supports the proposed rule change as an appropriate measure to address the identified problem (noting our comments on specific aspects of the rule change request).</p> <p>The ACCC also notes that the proposed rule change is intended to be an interim measure. In our Gas Inquiry 2017-2025, interim report, January 2022 report, we found that upstream and gas storage infrastructure exhibit natural monopoly characteristics, which in turn may allow the operators of such infrastructure to exert market power by engaging in monopoly pricing. To address this market power beyond the interim measure, we recommended the implementation of a third party access regime for upstream gas processing infrastructure and storage facilities (which would include the Dandenong LNG facility).</p>
7. Are there any measures in the proposed solution that you think are not required, or are there additional measures that you think are required?	<p>The level of capacity that AEMO is required to contract before each winter period should be informed by its estimates of the level of LNG inventory required to address system security and reliability concerns. Requiring AEMO to contract all outstanding capacity will increase costs to consumers while potentially having a minimal impact on the likelihood of curtailment.</p> <ul style="list-style-type: none"> • Under this approach, the target LNG volume would be the level of contracted capacity. • To the extent this results in residual uncontracted capacity, it may mean that other market participants are able to contract capacity without requiring AEMO to relinquish capacity. <p>The rule change should provide AEMO with flexibility around when it contracts LNG storage to allow it to begin filling LNG storage prior to 15 March of each year. This will avoid situations where AEMO potentially crowds out other market participants seeking to refill LNG storage ahead of winter or is unable to refill to its target level.</p>
8. Does the proposed rule properly reflect the solution described in the rule change request, or are amendments required?	
9. Do you think the proposed solution:	
a. is targeted, fit for purpose and proportionate to the issues it is intended to address?	Yes
b. provides for predictability and stability in regulatory arrangements?	Yes
c. provides for simplicity and transparency in regulatory arrangements?	Yes
AEMO AS BUYER OF LAST RESORT	

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10. Do you agree with the proposals that AEMO should:	
a. act as buyer of last resort for the Dandenong LNG facility for the winter months?	Yes
b. procure all of the uncontracted storage capacity available for the winter months?	As outlined in response 7, AEMO should be required to only contract sufficient storage to mitigate the system security and reliability risks (as determined by AEMO's modelling).
c. maintain a target level of LNG stock based on the highest level reasonably possible, or such other level determined by AEMO and approved by the Victorian Minister?	As outlined in response 7, the target level of LNG stock should be the level required to mitigate the system security and reliability risks (as determined by AEMO's modelling).
11. Does the proposal to allow AEMO to relinquish storage capacity if another market participant seeks access to this capacity address the risk that it could crowd out market participants, or would this still be a risk?	The ACCC believes that this addresses the risk of crowding out market participants.
12. Do you agree with the proposal that AEMO should only be able to on-sell LNG stock to a market participant as part of the relinquishment of storage capacity? If so, do you think this should be specified in the NGR, or could it be left to the LNG reserve procedures?	Yes, AEMO should only be able to on-sell LNG stock to a market participant as part of the relinquishment of storage capacity. In the case that AEMO decides to on sell its LNG stock to other market participants (as part of it relinquishing capacity), the LNG stock should be sold at the prevailing market price (i.e. the settled DWGM price on the day the LNG stock is transferred).
AEMO AS SUPPLIER OF LAST RESORT	
13. Do you agree with the proposal that AEMO should act as supplier of last resort from the Dandenong LNG facility and how this has been reflected in the principle set out in the proposed rule?	Yes
14. Do you think that the proposed rule should be amended to allow AEMO to dispose of part of the LNG stock at the end of the winter period?	Yes
15. Do you agree that AEMO should be able to use its LNG stock for reliability purposes? If so, should it be clarified in the NGR?	Yes, AEMO should be able to use its LNG stock for reliability purposes. To provide certainty to market participants, this should be clarified in the NGR.

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CONTRACTUAL ARRANGEMENTS	
16. Do you agree with:	
a. the proposed treatment of the LNG storage provider and AEMO's LNG storage agreement in the proposed rule and transitional rules?	Yes
b. the obligations that the proposed rule and transitional rules place on the LNG storage provider and AEMO in relation to contracting?	Yes
COST RECOVERY	
17. Do you agree with the proposals that AEMO should be required to recover:	
a. storage capacity costs through participant fees?	Yes
b. the losses/proceeds arising from the use of the LNG stock through the linepack account?	Yes
18. Is the proposed rule sufficiently clear on how all the costs that AEMO incurs (net of any proceeds it receives) are to be recovered, or are there some costs (or proceeds) that are not currently addressed?	AEMO should provide more detail on how it is to recover costs through participant fees. As a matter of principle and to the extent possible, AEMO should seek to recover costs in the first instance from market participants who contribute to system security and reliability issues and otherwise through market participants who benefit most from AEMO's role as a buyer and supplier of last resort.
19. Do you consider that either of the proposed cost recovery mechanisms affects the incentive market participants have to contract their own LNG storage capacity? If so, what is the impact on those incentives?	No. Recovering costs through market participant fees will not change the relative price of storage at the facility and therefore should not affect market incentives to contract LNG storage capacity.
TRANSPARENCY AND ACCOUNTABILITY	
20. Does the proposed rule change provide for sufficient accountability and transparency of AEMO's actions as buyer and supplier of last resort,	As outlined in response 18, transparency around AEMO's cost recovery should be improved.

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or are additional measures required?	
TRANSITIONAL ARRANGEMENTS	
21. Are any other transitional arrangements required to accommodate the implementation of the proposed solution?	
TERM OF THE PROPOSED RULE CHANGE	
22. Do you agree with the proposed term of the rule change from 2023 to 2025?	Yes
23. Do you think the proposed solution would affect the implementation of any other solutions that may be considered as part of the broader reform work being undertaken:	
a. on security and reliability measures?	No
b. on third-party access to storage facilities?	No
COSTS AND BENEFITS	
24. What do you think the direct and indirect costs of the proposed solution are likely to be? Are these costs likely to be proportionate to the problems they are intended to address?	
25. What do you think the benefits of the proposed solution are likely to be?	
26. Will the proposed solution provide for the safe, secure and reliable provision of gas at an efficient cost to consumers?	
27. What, if any effect, will the proposed solution have on:	
a. the incentive market participants have to contract to use the Dandenong LNG facility?	
b. the allocation of risks across the market (i.e. will risks be allocated to those best placed to	

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manage them)?	
c. the efficient operation of the DWGM?	
d. The efficiency of investment in, operation and use of the Dandenong LNG facility and any other DWGM infrastructure?	
28. What, if any, effect will the proposed solution have on the prices paid for gas in Victoria?	