



APA submission

**AEMC LNG Storage Measures
Rule Change process**

Consultation paper

29 September 2022



Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged online

29 September 2022

RE: APA Submission to Declared Wholesale Gas Market (DWGM) Interim LNG Storage Measures Rule change - Consultation Paper

Dear Ms Collyer,

Thank you for the opportunity to comment on the AEMC's DWGM Interim LNG Storage Measures Rule change process consultation paper (Consultation Paper). We appreciate the AEMC's consultative approach when considering changes to the rules that will apply to the Dandenong LNG storage facility.

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. Through a diverse portfolio of assets, we provide energy to customers in every state and territory on mainland Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage (including Dandenong LNG) and generation facilities, electricity transmission networks, and 395 MW of renewable generation.

We support measures that will improve the reliability of gas supplies for Victorian residential and commercial customers. Given the vital role that gas storage will play during the energy market transition, it is essential that we maintain incentives for service providers to efficiently invest in, operate and use storage facilities. Our submission provides views on how these incentives can be maintained in the context of this rule change.

If you wish to discuss our submission in further detail, please contact John Skinner on 02 9693 0009 or john.skinner2@apa.com.au

Yours faithfully



Peter Bolding
General Manager
Economic Regulation & Policy
APA Group

1 Executive Summary

Key points

- We support measures that will improve the reliability of gas supply for Victorian energy customers.
- There is a risk that the proposed rule change will influence the incentives of market participants to utilise Dandenong LNG.
- Given the important role that gas storage will play during the energy market transition, it is essential that we maintain incentives for service providers to invest in storage facilities.

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every state and territory on mainland Australia.

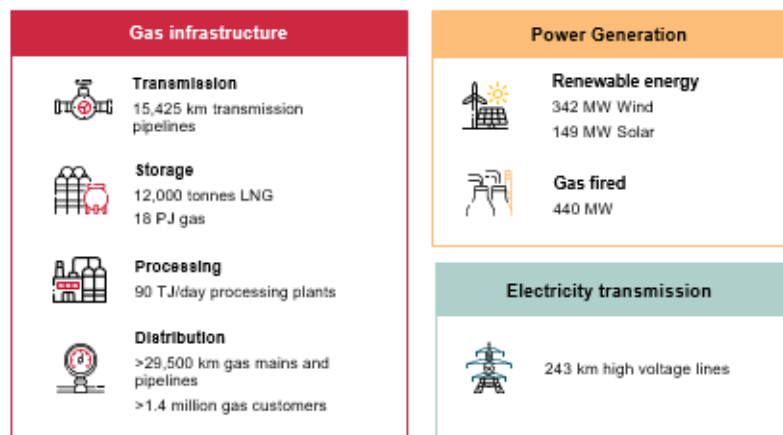
Our 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain networks connecting 1.4 million Australian homes and businesses to the benefits of natural gas. And we own or have interests in gas storage facilities, gas-fired power stations.

Our investments also include wind and solar generation infrastructure, with a further 88 MW of solar under construction, and our high voltage electricity transmission connects Victoria with South Australia and New South Wales with Queensland.

Natural gas is an integral part of the Australian economy and is relied on by over two million Victorian households and businesses every day. In the years ahead, gas is expected to play an increasingly important role in Australia’s energy system. As coal power stations retire, dispatchable gas powered generation (GPG) will help unlock many multiples of low-cost renewable generation capacity by providing the firm generation needed when wind and solar aren’t producing and other storage can’t fill the gap.

Given the importance of gas to the Australian economy, we fully support measures that will improve the reliability of supply for both residential and commercial customers. Australia is

Figure 1



blessed with significant natural gas reserves. Gas shortfalls would have serious ramifications for the domestic gas industry and put its social licence at risk.

As the Victorian Energy Minister's rule change proposal points out, APA's Dandenong LNG storage facility plays a unique role in the Victorian gas system, due to its location at the gateway to the main demand centre in Melbourne.¹ We therefore recognise the importance of Dandenong LNG in ensuring the safe, secure and reliable supply of gas to Victorian gas customers.

While we support the intent of the proposed rule change, there is a risk that proposed arrangements will influence the incentives of market participants to utilise Dandenong LNG. For this reason, we propose that any regulatory amendments are limited to achieving the Victorian Energy Minister's objective of ensuring that there is adequate inventory within Dandenong LNG to minimise risks to system security.

Our submission to the Consultation Paper is structured in two parts:

- PART A: key messages
- PART B: responses to questions raised in the Consultation Paper.

¹ Victorian Energy Minister, *Rule Change Proposal*, 8 August 2022, p4

2 PART A – Key messages

2.1 Secure gas supplies are critical during the energy market transition

Natural gas is an integral part of the Australian economy and is relied upon by millions of Australian households and businesses every day. In Victoria, there are over 2.2 million residential and commercial gas connections, and natural gas provides over 35 percent of Victoria’s manufacturing energy needs.²

Natural gas also has an essential role to play in helping Australia decarbonising its energy system and meet its net zero targets. As the penetration of variable renewable energy (VRE) sources, such as wind and solar, increase, and aging coal power stations retire, GPG will play a critical role in meeting electricity demand and maintaining the security of the system. This is because extended periods of low wind and solar will require significant volumes of dispatchable resources to be available to support the reliability and security of the system.

To support future investment, households and businesses need confidence that there will be sufficient gas to meet their current and future needs. We therefore support measures that will improve the reliability of supply for both residential and commercial customers.

As outlined in our submission below, however, it is essential that any proposed changes to the regulatory arrangements that apply to Dandenong LNG storage facility do not distort existing incentives to utilise, and invest in, gas storage infrastructure.

2.2 Maintaining market signals to contract and use Dandenong LNG

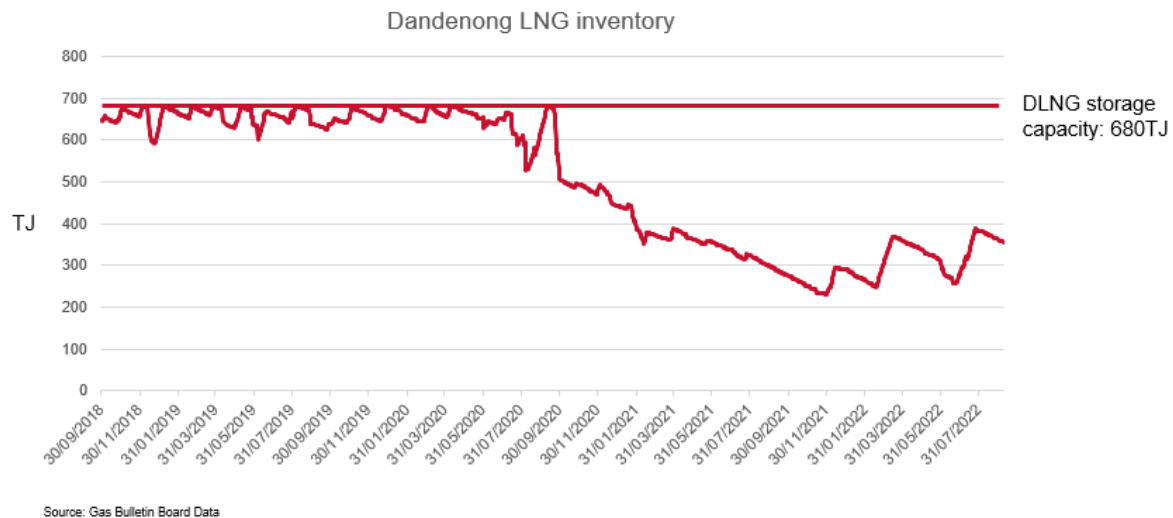
Dandenong LNG storage facility is owned and operated by APA and is a declared LNG storage provider within the Victorian Declared Transmission System (DTS). Market participants contract with APA to store gas at Dandenong LNG, and APA bears the risk associated with owning and operating the storage facility.

As the Consultation Paper notes, the amount of both contracted storage capacity and LNG held at Dandenong LNG have been declining since 2020 (see Figure 2). Consistent with any other business operating in a competitive environment, APA is exposed to the risks associated with fluctuations in demand for use of gas storage.

Furthermore, with technological change and the maturation of the gas market, gas storage is increasingly competing against other forms of energy storage, especially grid scale batteries, as well as the increased availability of financial hedging products. This means that the risk associated with gas storage facilities such as Dandenong LNG is increasing.

² Australian Government, *Australian Energy Statistics 2021-21*, Table F3

Figure 2: Dandenong LNG storage levels since 2018



The Consultation Paper recognises the importance of maintaining incentives for market participants to continue to contract and use the Dandenong LNG storage facility.³ We support this objective.

However, there is a risk that under the proposed rule change, market participants will change their behaviour due to concerns about competing with a non-commercial actor for LNG storage or vaporisation services. This is because:

- as **buyer of last resort**, AEMO must contract any uncontracted capacity in the Dandenong LNG storage facility as at the end of 15 March each year.⁴ This effectively removes the ability of market customers to respond to changing market conditions and acquire any available storage capacity during winter months. This could have the unintended affect of reducing a market participant's willingness to acquire LNG storage throughout the year, despite the ability for AEMO to relinquish storage capacity to a market participant through a bilateral agreement.⁵
- as **supplier of last resort**, AEMO will use its LNG stock by issuing scheduling instructions to vaporise LNG stock at such times and in such quantities as AEMO considers necessary to ensure the security of the DTS. In contrast to arrangements during 2022, where AEMO expected to address any threats to system security through its direction power under s.91BC of the National Gas Law, under the proposed rule change, AEMO will bid LNG stock into the market, which will enter the market via scheduling instructions to Dandenong LNG, in the same way as other market participants. The proposed rules states that the gas scheduling procedures

³ AEMC, *DWGM Interim Storage Measures Consultation Paper*, 1 September 2022, p18

⁴ AEMC, *DWGM Interim Storage Measures Consultation Paper*, 1 September 2022, p22

⁵ AEMC, *DWGM Interim Storage Measures Consultation Paper*, 1 September 2022, p23

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 market participants, it is not mandatory for that to be the case.⁶ This means there is still the risk that market participants will be competing with AEMO for vaporisation services.

This is particularly important as other market participants have contracted firm injection rights into the market, whereas AEMO's current contract arrangements (which APA is obliged to maintain) do not include firm injection rights. Market Participants that hold storage capacity that have been scheduled must have priority in respect on vaporisation so as not to undermine incentives for market participants to contract capacity within the tank.

As outlined above, there is a risk that proposed arrangements will influence the incentives of market participants to utilise Dandenong LNG. For this reason, we propose that any regulatory amendments are limited to achieving the Victorian Energy Minister's objective of ensuring that there is adequate inventory within Dandenong LNG to minimise risks to system security.

Recommendation

To minimise the risk of the rule change influencing the behaviour of market participants, we therefore recommend that the ability of AEMO to bid LNG stock into the market, as proposed in subrule 285(1), be removed. This would be consistent with one of the proposed objectives of the rule change, which is to allow the market to continue to operate as per current arrangements as much as possible.⁷ Rather than giving AEMO the power to bid gas into the market in a manner similar to market participants, we recommend that any vaporisation of AEMO's LNG stock should be carried out through a direction under s.91BC of the NGL, similar to that expected under existing contractual arrangements between APA and AEMO.

Should the proposed subrule 285(1) be adopted and AEMO is given the power to bid gas into the market, we recommend changes to proposed subrule 285(3)(a), which states that LNG stock held on behalf of AEMO *should ordinarily* be scheduled after that of market participants. To provide greater certainty for market participants, the subrule should be amended to state that LNG stock held on behalf of AEMO *must* be scheduled after that of market participants offered in the bid stack:

(3) Without limiting the generality of subrule (2), the gas scheduling procedures:

(a) must give effect to the principle that LNG stock held on behalf of AEMO **must** be scheduled after LNG stock held and scheduled on behalf of Market Participants;

APA considers this to be a sub-optimal solution. Where DLNG is dispatched at VOLL through the normal operation of the dispatch engine, further dispatch of AEMO's gas (also at VOLL) may result in the dispatch engine pro-rating market participants' and AEMO's LNG. There is a further complexity as to whether this Rule change would require market participants to purchase Melbourne Zone Entry Capacity Certificates to guard against such a pro-rating. A consequential implication may be a need for AEMO to allocate (free)

⁶ Victorian Energy Minister, *Rule Change Proposal*, 8 August 2022, proposed rule 285(3)(a)

⁷ Victorian Energy Minister, *Rule Change Proposal*, 8 August 2022, p17

Melbourne Zone Entry Capacity Certificates to market participants that have purchased the DLNG firm vaporisation service.

2.3 Maintaining incentives to invest

As well as maintaining incentives for market participants to utilise storage capacity, the Consultation Paper also recognises the importance of maintaining incentives for service providers to efficiently invest in, operate and use storage facilities.⁸ This objective is particularly important given the role that gas, and gas infrastructure, will play in supporting renewables during the energy market transition.

Dandenong LNG storage facility is intended to be used as just that: a storage facility. The process of liquefying natural gas to convert it into LNG consumes energy, and the Consultation Paper recognises that unnecessarily withdrawing and injecting gas into Dandenong LNG is an inefficient use of the facility.⁹ Not only is this due to the cost of liquefaction, but unnecessarily withdrawing and injecting gas will increase the natural wear and tear on the facility. The proposed rule addresses this concern by allowing AEMO to transfer LNG stock to market participants on terms agreed bilaterally between AEMO and the market participant.

APA does not offer seasonal storage services in Dandenong LNG because of the physical characteristics of the tank, and the ability to maintain a commercially viable service model.

Given concerns about existing Dandenong storage levels, AEMO and APA have an LNG storage agreement already in place. The existing contract between AEMO and APA commenced in January 2022 and will terminate in January 2023, with the storage rate calculated as a value per GJ per day, based on the 12 month term.¹⁰

Under proposed rule 282, AEMO and APA will be required to have in place a further agreement for the period from 2023 to 2025, on substantially the same terms (including price and price structure) as the 2022 agreement.

As the rule change proposal points out, the existing contract was recently negotiated and agreed to by both APA and AEMO.¹¹ For this reason, we consider that a new LNG storage agreement that is on substantially the same terms as the existing agreement will help support the intent of the rule change and the operation of the Dandenong LNG facility for the period from 2023 to 2025.

However, there remains ongoing uncertainty regarding the future contracting behaviour of market participants. When recontracting with AEMO, APA seeks scope to reopen elements of the contract to support the ongoing commercial operation of the tank if there is a material

⁸ AEMC, *DWGM Interim Storage Measures Consultation Paper*, 1 September 2022, p18

⁹ AEMC, *DWGM Interim Storage Measures Consultation Paper*, 1 September 2022, p23

¹⁰ LNG Services Agreement between AEMO and APA, accessible via the AEMC website

¹¹ Victorian Energy Minister, *Rule Change Proposal*, 8 August 2022, p12

change in circumstances. These negotiations would be undertaken in good faith and limited to elements required to address the change in circumstances.

2.4 Challenging liquefaction timeframes

The rule change proposes a 15 March date from which AEMO will contract and commence storing LNG under an LNG storage agreement. Due to the slow liquefaction rate at Dandenong LNG, a 15 March date from which to contract unutilised capacity does not provide much time to fill the storage tank prior to winter.

Recommendation

We recommend that due to the slow liquefaction rate, a 1 March date (61 days prior to the start of AEMO's winter season on 1 May) is a better date to contract unutilised capacity and commence filling Dandenong LNG.

Acknowledging the information value of a direction by AEMO to commence liquefaction during a time when the Gas Statement of Opportunities (GSOO) and Victorian Gas Planning Report (VGPR) are under preparation, we suggest a preliminary order could be provided on 1 March, with a final order issued on 31 March to coincide with the release of the GSOO and VGPR.

3 PART B – Responses to discussion paper questions

3.1 Discussion paper questions

Question	APA response
QUESTION 1: ASSESSMENT FRAMEWORK	
1. Is the proposed assessment framework appropriate for considering the rule change request? Are there any other matters that should be included?	We support the proposed assessment framework.
QUESTION 2: PROBLEM STATEMENT	
1. 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?	We do not agree that current arrangements in the DWGM are not providing for the effective use of the Dandenong LNG facility. AEMO has broad powers under s.91BA(2) of the NGL to trade in natural gas to the extent necessary for the safety, security or reliability of the DTS and currently has a contract in place for storage capacity at Dandenong LNG. However, to the extent that any issues need to be clarified, we agree that they should be addressed prior to winter 2023.
2. What do you think the underlying source of the problems are (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)?	No comment
3. How material do you think the identified problems are and what impact could they have on the following (distinguishing where possible	No comment



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?

4. What do you think would happen if nothing is done to address the identified problem?

No comment

QUESTION 3: PROPOSED SOLUTION

1. 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)?

Given AEMO currently has a contract in place for LNG storage services and has the power under s.91BC of the NGL to direct APA to vaporise gas for injection into the DTS, there may not be a need for a rule change to the extent proposed.

However, we recognise that Energy Ministers support a rule change, and our submission therefore provides views on the matters raised in the Victorian Energy Minister's rule change proposal.

2. Are there any measures in the proposed solution that you think are not required, or are there additional measures that you think are required?

See section 2.2 of our submission for a recommendation relating to the power of AEMO to bid into the market.

To minimise the risk of the rule change influencing the behaviour of market participants, we recommend that the ability of AEMO to bid LNG stock into the market, as proposed in subrule 285(1), be removed.



<p>3. Does the proposed rule properly reflect the solution described in the rule change request, or are amendments required?</p>	<p>No comment</p>
<p>4. Do you think the proposed solution:</p> <ul style="list-style-type: none"> a. is targeted, fit for purpose and proportionate to the issues it is intended to address? b. provides for predictability and stability in regulatory arrangements? c. provides for simplicity and transparency in regulatory arrangements? 	<p>As outlined in section 2.2 of our submission, we consider that the ability of AEMO to bid gas into the market goes beyond what is necessary to achieve the Victorian Energy Minister’s objective.</p> <p>We recommend that the ability of AEMO to bid LNG stock into the market, as proposed in subrule 285(1), be removed. This would be consistent with one of the proposed objectives of the rule change, which is to allow the market to continue to operate as per current arrangements as much as possible.</p>
<p>QUESTION 4: AEMO AS BUYER OF LAST RESORT</p>	
<p>1. Do you agree with the proposals that AEMO should:</p> <ul style="list-style-type: none"> a. act as buyer of last resort for the Dandenong LNG facility for the winter months? b. procure all of the uncontracted storage capacity available for the winter months? 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? 	<p>In the absence of market participants acquiring the unused capacity in Dandenong LNG facility, we are supportive of AEMO acting as a buyer of last resort.</p>
<p>2. Does the proposal to allow AEMO to relinquish storage capacity if another market participant seeks access to this capacity address the</p>	<p>See section 2.2 of our submission.</p>



risk that it could crowd out market participants, or would this still be a risk?

Despite the measures proposed to ameliorate the risk of crowding out market participants, there remains a significant risk that proposed arrangements will influence the incentives of market participants to utilise Dandenong LNG.

3. 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?

No comment

QUESTION 5: AEMO AS SUPPLIER OF LAST RESORT

1. 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?

As outlined in section 2.2 of our submission, we consider that the ability of AEMO to bid gas into the market goes beyond what is necessary to achieve the Victorian Energy Minister's objective.

We recommend that the ability of AEMO to bid LNG stock into the market, as proposed in subrule 285(1), be removed. This would be consistent with one of the proposed objectives of the rule change, which is to allow the market to continue to operate as per current arrangements as much as possible.

2. 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?

See section 2.3 of our submission.

The Consultation Paper recognises that unnecessarily withdrawing and injecting gas into Dandenong LNG is an inefficient use of the facility. Not only is this due to the cost of liquefaction, but unnecessarily withdrawing and injecting gas will increase the natural wear and tear on the facility.



3. 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?

We support AEMO using its LNG stock for reliability purposes.

QUESTION 6: CONTRACTUAL ARRANGEMENTS

1. Do you agree with:

See sections 2.3 and 2.4 of our submission.

a. the proposed treatment of the LNG storage provider and AEMO's LNG storage agreement in the proposed rule and transitional rules?

We support the proposed arrangements for the LNG storage agreement between AEMO and APA.

b. the obligations that the proposed rule and transitional rules place on the LNG storage provider and AEMO in relation to contracting?

As outlined in section 2.4, we support a 1 March, rather than 15 March, for contracting unutilised capacity.

QUESTION 7: COST RECOVERY

1. Do you agree with the proposals that AEMO should be required to recover:

a. storage capacity costs through participant fees?

We support these proposals.

b. the losses/proceeds arising from the use of the LNG stock through the linepack account?

2. 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?

No comment

3. 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 comment



QUESTION 8: TRANSPARENCY AND ACCOUNTABILITY

1. Does the proposed rule change provide for sufficient accountability and transparency of AEMO's actions as buyer and supplier of last resort, or are additional measures required?

We consider that the proposed rule change provides for sufficient accountability and transparency.

QUESTION 9: TRANSITIONAL ARRANGEMENTS

1. Are any other transitional arrangements required to accommodate the implementation of the proposed solution?

No comment.

QUESTION 10: TERM OF THE PROPOSED RULE CHANGE

1. Do you agree with the proposed term of the rule change from 2023 to 2025?

Yes, we support this term.

2. 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:

The proposed solution is likely to impact the broader work program relating to gas security and reliability.

a. on security and reliability measures?

We look forward to working with Energy Officials on longer term measures to ensure the security of supply for domestic gas users.

b. on third-party access to storage facilities?



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