



# Wholesale Market LNG Reserve Procedures (Victoria)

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## Current version release details

Version	Effective date	Summary of changes
0.1	1 March 2023	AEMO is making this new Procedure for the AEMC's DWGM interim LNG storage measures rule change.

**Note: There is a full version history at the end of this document.**

# 1. Introduction

## 1.1. Purpose and scope

These are the Wholesale Market LNG Reserve Procedures (Victoria) (**Procedures**) made in accordance with section 91BL of the National Gas Law (NGL) and Rule 286A of the National Gas Rules (NGR).

The NGL and the NGR prevail over these Procedures to the extent of any inconsistency.

These Procedures may only be amended in accordance with Part 15B of the NGR.

The purpose of these Procedures is to govern the contracting by AEMO for LNG storage capacity under Rule 282, the acquisition of gas for storage on AEMO's behalf as LNG stock, the disposal or reduction of the LNG stock held on AEMO's behalf under Rule 286 and cost recovery and return of proceeds under Rule 286B.

## 1.2. Application

These Procedures apply to AEMO and each person to whom they are expressed to apply.

## 1.3. Legal and Regulatory Framework

These Procedures have been made under section 91BL of the National Gas Law.

AEMO is required, by the NGR286A, to produce LNG Reserve Procedures, relating to:

- (a) contracting for *LNG storage capacity* under rule 282;
- (b) the acquisition of gas for storage on its behalf as *LNG stock*;
- (c) the disposal or reduction of the *LNG stock* held on its behalf under rule 286, including:
  - (i) specify the terms and conditions on which *LNG stock* is to be transferred to a *Market Participant* under rule 286(3); and
  - (ii) specify the methodology to be used by AEMO to determine the price of *LNG stock* transferred to a *Market Participant* under rule 286(3);
- (d) cost recovery and return of proceeds under rule 286B;
- (e) include the methodology required by rule 286B(8) to be used by AEMO to determine the allocation factor for each *Market Participant* for each relevant year;
- (f) deal with the publication of information under rule 286C; and
- (g) provide information to explain the arrangements for cost recovery and return of proceeds under rule 286B.

## 1.4. Definitions and interpretation

### 1.4.1. Glossary

Terms defined in the NGL and the NGR have the same meanings in these Procedures unless otherwise specified in this clause.

Terms defined in the NGL and NGR are intended to be identified in these Procedures by italicising them, but failure to italicise a defined term does not affect its meaning.

The words, phrases and abbreviations in the table below have the meanings set out opposite them when used in these Procedures.

**Table 1 Glossary of Terms**

Term	Definition
NGL	National Gas Law
NGR or Rules	National Gas Rules
Schedule	An operating schedule or a pricing schedule
SWN	A System Wide Notice (SWN) to <i>Market Participants</i> , or any other relevant Participants under the Wholesale Market Electronic Communication Procedure.

### 1.4.2. Interpretation

The following principles of interpretation apply to these Procedures unless otherwise expressly indicated:

- (a) These Procedures are subject to the principles of interpretation set out in Schedule 2 of the National Gas Law.
- (b) References to time are references to Australian Eastern Standard Time.
- (c) Market prices are determined to four decimal places and gas is scheduled in integer gigajoule terms to the whole gigajoule.

## 1.5. Related documents

The following documents support this Procedure.

**Table 2 Related Wholesale Market Procedures**

Reference	Title	Location
Accreditation Procedures	Wholesale Market Accreditation Procedures (Victoria)	<a href="#">AEMO website</a>
Electronic Communication Procedures	Wholesale Market Electronic Communication Procedures (Victoria)	<a href="#">AEMO website</a>
Gas Scheduling Procedures	Wholesale Market Gas Scheduling Procedures (Victoria)	<a href="#">AEMO website</a>
System Security Procedures	Wholesale Market System Security Procedures (Victoria)	<a href="#">AEMO website</a>

## 2. Contracting and Refilling AEMO LNG Reserve

### 2.1. Contracting for LNG storage capacity

At all times during the relevant years, AEMO is required under the Rules to have in force an *LNG storage agreement* with an *LNG Storage Provider* and contract for use of any *uncontracted LNG storage capacity* as at 1 March and purchase gas for storage on its behalf as LNG, with the objective of achieving the target level by the start of the winter months in the *relevant year*.

- (a) The *LNG Storage Provider* must provide the information detailed in paragraph (c) for AEMO to determine the *uncontracted LNG storage capacity*.
- (b) AEMO may contract for use of any *uncontracted LNG storage capacity* for the winter months of a relevant year that becomes available after 1 March of *that year*.
- (c) The *LNG Storage Provider* must provide to AEMO as soon as possible after the end of the *gas day* commencing on 1 March each year the:
  - (i) *uncontracted LNG storage capacity* assigned to the *LNG Storage Provider*;
  - (ii) *non-market LNG storage capacity* assigned to the *LNG Storage Provider*; and
  - (iii) *operational LNG storage capacity* assigned to the *LNG Storage Provider*.reconciled to that day's data provided for *Market Participant's LNG stock* under NGR279(4) and *Market Participant's LNG storage capacity* under NGR281(5).

### 2.2. Acquisition of gas for storage in AEMO's LNG reserve

AEMO may withdraw gas from the DTS to refill AEMO's *LNG reserve*. The process for AEMO to withdraw gas into AEMO's *LNG reserve* is:

- (a) AEMO will agree a refill schedule with the *LNG Storage Provider*.
- (b) AEMO will publish the forecast refill schedule and inform *Market Participants* via SWN as required by NGR286C(1) of the:
  - (i) initial refill schedule AEMO has agreed with the *LNG Storage Provider*; and
  - (ii) in the event that the *LNG Storage Provider* notifies AEMO of a material change to the refill schedule, AEMO will publish the amended forecast refill schedule and inform *Market Participants* via SWN, on the next business day after AEMO is notified.
- (c) A change to a refill schedule will be material if:
  - (i) the LNG refill rate has been amended by more than 50% from the rate previously published for more than 6 *gas days* during the previous week.
- (d) AEMO may enter a demand forecast in market systems via WebExchanger that equates to the refill schedule quantity agreed with the *LNG Storage Provider* for each *gas day*.

Note: the demand forecast may be updated from time to time as and when the refill schedule is amended to minimise deviations.

## 3. Relinquishment and disposal of AEMO's LNG Reserve

### 3.1. Relinquishment of LNG reserve capacity

AEMO may be required to reduce its *LNG storage capacity* for a variety of reasons, including, but not limited to:

- (a) If the LNG Storage Provider requests AEMO to relinquish all or part of AEMO's *LNG reserve* to satisfy a request for services to be provided to a *Market Participant* by means of the *LNG Storage Provider's LNG storage facility*, AEMO will relinquish the capacity to the *LNG Storage Provider*, except to the extent that relinquishing the capacity would breach AEMO's gas safety case or any other applicable legislative or regulatory instrument.
- (b) If AEMO is not required under the Rules to have a contract for use of *uncontracted LNG storage capacity* and AEMO does not otherwise require the capacity at the *LNG storage facility*, AEMO will relinquish the capacity to the *LNG Storage Provider*.

### 3.2. Disposal of AEMO's LNG stock

#### 3.2.1. AEMO LNG stock transfer offer

AEMO may transfer its *LNG stock* if AEMO relinquishes capacity for the reasons in section 3.1. AEMO may also dispose of its *LNG stock* if the *LNG Storage Provider* undertakes maintenance that requires the disposal of *LNG stock* during the maintenance period.

The process for AEMO to transfer and dispose of *LNG stock* is to occur over 20 business days:

- (a) From the business day (D) that AEMO is requested by the *LNG Storage Provider* to relinquish capacity, is notified of the requirement to dispose of stock for maintenance or AEMO otherwise decides to relinquish capacity requiring LNG stock disposal (as applicable), AEMO will begin the following process:
  - (i) AEMO will inform *Market Participants* by the end of the next business day, by SWN, of the *LNG capacity* relinquishment and requirement for AEMO to do an *LNG stock* transfer or LNG injection into the *Market* by D+20 business days.
  - (ii) If the disposal of LNG stock is a result of the *LNG Storage Provider* requesting AEMO to relinquish all or part of AEMO's *LNG reserve* to satisfy a request for services to be provided to a *Market Participant* by means of the *LNG Storage Provider's LNG storage facility*, subject to any amount of *LNG reserve* that AEMO is not required to relinquish, then:
    - (A) From business day (D) the *Market Participant* requesting the services may contact AEMO requesting an offer.
    - (B) AEMO will offer that *Market Participant* requesting the services the first option to purchase, via email, an amount of AEMO's *LNG stock* that exceeds AEMO's reduced *LNG reserve* on the terms and conditions in section 3.2.2 and at the price determined in accordance with section 3.2.3;
    - (C) AEMO will allow the *Market Participant* until D+5 business days to respond to the offer;
    - (D) The *Market Participant* may only accept the offer in the manner and form specified in the offer;
    - (E) If the *Market Participant* rejects AEMO offer or does not accept the offer within D+5 business days then, from the date of the rejection or the end of

the D+5 business days (as applicable) AEMO may begin the next step under paragraph (iii).

- (iii) Except for any *LNG stock* accepted for transfer under paragraph (ii), by no later than D+6 business days, AEMO will:
  - (A) make an offer to all *Market Participants* with available *LNG storage capacity*, via SWN, to purchase an amount of AEMO's *LNG stock* that exceeds AEMO's reduced *LNG reserve* on the terms and conditions in section 3.2.2 and at the price determined in accordance with section 3.2.3;
  - (B) AEMO will allow *Market Participants* 5 business days to respond to the offer;
  - (C) A *Market Participant* may only accept the offer in the manner and form specified in the offer;
  - (D) If all the *Market Participants* have rejected AEMO's offer or have not accepted the offer in respect of all of the *LNG reserve* offered before the end of D+10 business days then, from the date all *Market Participants* have rejected the offer or the end of the D+10 business days (as applicable), AEMO may begin the next step in (iv) in respect of the *LNG reserve* that has not been accepted by *Market Participants*.
- (iv) Except for any *LNG stock* accepted for transfer under paragraphs (ii) and (iii), by no later than D+11 business days, AEMO will input an *LNG injection bid* in accordance with the Gas Scheduling Procedures at the minimum daily injection rate in order to reduce AEMO's *LNG stock* to meet AEMO's reduced *LNG storage capacity* on D+20 business days.

### 3.2.2. Terms and Conditions of an AEMO LNG stock transfer

#### LNG stock transfer terms

- (b) Subject to 3.2.2(c), AEMO agrees to sell to each *Market Participant* that accepts an offer made by AEMO under 3.2.1(b)(ii) or 3.2.1(b)(iii), and a *Market Participant* that accepts the offer made by AEMO under 3.2.1(b)(ii) or 3.2.1(b)(iii) (each referred to herein as a Buyer) agrees to purchase, the quantity of *LNG stock* at the price specified in AEMO's offer to that *Market Participant* on the terms in this section 3.2.2.
- (c) If more than one *Market Participant* accepts an offer made by AEMO under 3.2.1(a)(iii), AEMO agrees to transfer to each *Market Participant* that accepted the offer, and each *Market Participant* that accepted the offer (each referred to herein as a Buyer) agrees to purchase, an equal proportion of the quantity of *LNG stock* at the price specified in AEMO's offer to that *Market Participant* on the terms in this section 3.2.2.

#### LNG stock transfer invoice calculation

- (d) AEMO will email to each Buyer an *LNG stock* transfer invoice.
- (e) A *LNG stock* transfer invoice amount will state the total purchase price payable by the Buyer determined in accordance with section 3.2.3 and the total quantity of *LNG stock* that AEMO will authorise the *LNG storage provider* to transfer to the Buyer.

#### LNG stock transfer payment

- (f) A Buyer must pay the purchase price to AEMO by the payment date and time specified in the *LNG stock* transfer invoice by authorising the transfer of funds in dollars to the AEMO Clearing Account specified in the *LNG stock* transfer invoice.
- (g) If GST is payable on a taxable supply (as defined in *A New Tax System (Goods and Services) Tax Act 1999* (Cth)) made by AEMO to a Buyer under these terms:
  - (i) a *LNG stock* transfer invoice issued in relation to that taxable supply must set out the amount of GST; and

- (ii) the amount payable for that taxable supply will be the purchase price plus GST.

#### Transfer of LNG stock

- (a) Upon receipt by AEMO of payment in full of the purchase price from a Buyer in accordance with these terms, AEMO will authorise the *LNG Storage Provider* to transfer the quantity of *LNG stock* specified in the LNG stock transfer invoice to that Buyer by recording the Buyer as the holder of that quantity of *LNG stock* in the register of LNG storage capacity entitlement required to be kept by the *LNG Storage Provider* under rule 281(5) of the Rules.
- (b) The Buyer must ensure that at the time of transfer of the *LNG stock* from AEMO to the Buyer, the Buyer will have the right to sufficient available *LNG storage capacity* at the *LNG storage facility* to store the *LNG stock* transferred from AEMO to the Buyer.
- (c) As between AEMO and the Buyer, title to, and risk and loss of or damage to, and liability for injury or damage caused by, *LNG stock* transferred by AEMO to the Buyer passes to the Buyer on receipt by AEMO of payment of the full purchase price.
- (d) AEMO is not liable for and makes no warranty regarding the merchantability or suitability for any purpose of *LNG stock* transferred by AEMO to the Buyer and AEMO does not warrant that *LNG stock* transferred by AEMO to a Buyer is of any particular quality or meets any specification.
- (e) If a Buyer does not pay the purchase price in full by the due date for payment, the agreement between AEMO and that Buyer for the transfer and purchase of the *LNG stock* to which the purchase price relates is automatically terminated and AEMO may, in respect of the quantity of *LNG stock* that was to be transferred to that Buyer, reoffer that *LNG stock* to *Market Participants* if time permits in accordance with section 3.2.1(iii) or dispose of that *LNG stock* in accordance with section 3.2.1(iv).

### 3.2.3. Methodology for determining the price of an AEMO LNG Stock transfer

The pricing methodologies AEMO may use to determine a price for the *LNG stock* transfer include, during a winter period (as defined in the Wholesale Market System Security Procedures), the cost of liquefaction at the date of AEMO's offer to transfer plus the greater of the following values:

- (a) sum of charges for AEMO to fill the AEMO *LNG Reserve* divided by the quantity in the reserve, adjusted for previous *LNG stock* transfers and any quantity of *LNG stock* injected into the market.
- (b) The average of the *market price* set at the current day 6:00AM schedules for the current day and last 6 days.

NOTE: The purpose of this pricing methodology is to enable *Market Participants*, who have been charged the gas commodity cost and the liquefaction cost, to receive the maximum benefit when the opportunity cost of LNG sale is high during the Winter period.

During a non-winter period when disposal or relinquishment is required in a short timeframe, the cost of liquefaction at the date of AEMO's offer to transfer plus the lower of the following values:

- (a) sum of charges for AEMO to fill the AEMO *LNG Reserve* divided by the quantity in the reserve and
- (b) the average of the *market price* set at the current day 6:00AM schedules for the current day and last 6 days.



NOTE: The purpose of this pricing methodology is to enable *Market Participants*, who have been charged the gas commodity cost and the liquefaction cost, to receive the maximum value of the gas commodity from the sale.

## 4. Cost recovery and return of proceeds from AEMO's LNG Reserve

The *Allocation Factor* is used to allocate cost recovery and return of proceeds in relation to AEMO's LNG Reserve to each *Market Participant*.

The *Allocation Factor* for a relevant year is determined after the last revision allocation is provided to AEMO for the preceding financial year. This generally occurs in late December each calendar year for the preceding financial year.

### 4.1. Calculation of the Allocation Factor

AEMO will calculate for each *relevant year* an *Allocation Factor* for each *Market Participant* based on the withdrawal *allocations* for each *Market Participant* in the financial year ending prior to the start of the *relevant year*. AEMO will undertake the following steps to perform this function:

- (a) AEMO will use the withdrawal *allocation* available by 31 December each year in respect of withdrawals in the most recent financial year ending prior to that 31 December to determine the Withdrawal Assignment for each *Market Participant* for the *relevant year* commencing immediately after that 31 December.

NOTE: AEMO expects the withdrawal allocation to use quantities from the *revised statements* published as per NGR249(1) for the previous financial year. In the event *revised statements* are delayed AEMO will use the latest allocation available.

- (b) AEMO will calculate, using the Withdrawal Assignment of each *Market Participant* for the *relevant year*, the total Withdrawal Assignment for all active *Market Participants* at the start of each month.
- (c) For the avoidance of doubt, a special revisions event, altering the *allocation* for the financial year on which the Withdrawal Assignment was calculated, will not cause the Withdrawal Assignment to be recalculated as this value is fixed.
- (d) Each *Market Participant's Allocation Factor* will be calculated (and recalculated as required by NGR286B(9)) on the basis of each active *Market Participants* share of the total Withdrawal Assignment.
- (e) An active *Market Participant* is any *Market Participant* during a month that has not been:
  - (i) issued with a *suspension notice*; or
  - (ii) deregistered from the *Market*
 during that month.
- (f) The Withdrawal Assignment, in GJs, and the *Allocation Factor* will be published by AEMO to each *Market Participant*.

#### 4.1.1. Example 1 - Calculation of the Allocation Factor including a new participant

The following example shows the calculation of the *Allocation Factor* in a scenario where each *Market Participants* remains active in the *Market* during the calendar year following the base financial year from which the *Allocation Factor* is determined.

In the following example there are 4 *Market Participants* that were active in the base financial year. An additional *Market Participant*, Company E, has entered the market in December, after the base financial year.

Company E in this instance is assigned a 0% *Allocation Factor*.

Market Participant	Total Withdrawals (Financial Year 2021/2022)	Withdrawal Assignment (Year 2023)	Allocation Factor (AF) (Year 2023)
Company A	200	200	28.6%
Company B	300	300	42.9%
Company C	150	150	21.4%
Company D	50	50	7.1%
Company E		0	0%
<b>Total</b>	700	700	100%

#### 4.1.2. Example 2 - Recalculation of Allocation Factor following Market Participant suspension or deregistration

In the event AEMO is informed of a *Market Participant* being issued with a suspension notice or being deregistered from the *Market* then AEMO will rerun the calculation of the *Allocation Factor*. The suspended or deregistered *Market Participants* Withdrawal Assignment from the base financial year will be removed from the calculation (including from the total Withdrawal Assignment). The remaining participants will receive a percentage share of the residual Total Withdrawal Assignment to determine their amended *Allocation Factor* for the remainder of the *relevant year*.

The following example shows the calculation of the *Allocation Factor* where a *Market Participant* (Company D) is deregistered or suspended in the *Market* during a *relevant year*.

In this instance the Withdrawal Assignment for Company D is treated as 0GJ when the *Allocation Factor* is recalculated after the company is suspended or deregistered.

Market Participant	Total Withdrawals (Financial Year 2021/2022)	Withdrawal Assignment (Year 2023)	Allocation Factor (AF) (Year 2023)
Company A	200	200	30.8%
Company B	300	300	46.2%
Company C	150	150	23.2%
Company D	50	0	0%
Company E		0	0%

Market Participant	Total Withdrawals (Financial Year 2021/2022)	Withdrawal Assignment (Year 2023)	Allocation Factor (AF) (Year 2023)
<b>Total</b>	700	650	100%

## 5. Provision of Information

### 5.1. Publication of information about AEMO's LNG reserve

The 6 monthly LNG summary report, required by NGR286C(2), to be published by:

- (a) 1 May will detail the changes in AEMO's *LNG Reserve* for the previous October to March period; and
- (b) 1 November will detail the changes in AEMO's *LNG Reserve* for the previous April to September period.

The information to be published in the report is detailed in NGR286C(2) and will be published on AEMO's website.