



29 September 2022

Submitted electronically

RE: DWGM Interim LNG Storage Measures (GRC0065)

Shell Energy welcomes the opportunity to comment on the proposed expedited rule change concerning AEMO's powers to purchase LNG storage at the Dandenong facility and to operate as a last resort supplier of natural gas for system security and reliability purposes.

About Shell Energy in Australia

Shell Energy is Shell's renewables and energy solutions business in Australia, helping its customers to decarbonise and reduce their environmental footprint.

Shell Energy delivers business energy solutions and innovation across a portfolio of electricity, gas, environmental products and energy productivity for commercial and industrial customers, while our residential energy retailing business Powershop, acquired in 2022, serves more than 185,000 households and small business customers in Australia.

As the second largest electricity provider to commercial and industrial businesses in Australia¹, Shell Energy offers integrated solutions and market leading² customer satisfaction, built on industry expertise and personalised relationships. The company's generation assets include 662 megawatts of gas-fired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and the 120 megawatt Gangarri solar energy development in Queensland.

Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy, while Powershop Australia Pty Ltd trades as Powershop. Further information about Shell Energy and our operations can be found on our website [here](#).

General Comments

Shell Energy's appreciates the need for effective and efficient usage of the Dandenong LNG (DLNG) storage facility to support secure operation of the Victorian gas transmission system and supply reliability for consumers in the Declared Wholesale Gas Market (DWGM). We believe the market settings and commercial cost arrangements at the facility are currently incentivising under-utilisation by market participants and support changes in these areas which are being consulted on separately. The proposed Interim Storage Measures that are the subject of this consultation have the potential to influence market pricing dynamics which could impact consumers negatively. Our comments below are therefore aimed at further enhancing the rule change to ensure minimal impact on the effective use of the DLNG and efficient market outcomes.

Buyer and Supplier of Last Resort

Shell Energy supports the intended role for AEMO to be the seller of last resort in the DWGM. To ensure that this is always the case we suggest that AEMO should be required to bid into the market just above the market price cap rather than at the market price cap. This will have no impact on final market price outcomes due to the price capping

¹By load, based on Shell Energy analysis of publicly available data.

² Utility Market Intelligence (UMI) survey of large commercial and industrial electricity customers of major electricity retailers, including ERM Power (now known as Shell Energy) by independent research company NTF Group in 2011-2021.



procedure. Bidding at the market price cap could result in instances where AEMO bids are dispatched in advanced of market participants who have bids at the same level. If this were to occur, it would have the effect of crowding out market participants who bid at this price for risk management purposes. These participants could then be exposed to increased risk which would be a suboptimal outcome for the market and ultimately for consumers.

Consideration should also be given to the adoption of different market price outcomes for gas that is dispatched for secure operation of the gas system compared to gas dispatched for gas reliability purposes. Given gas could be dispatched for system security or reliability purposes we believe this distinction should be adequately defined and that there be full transparency around any costs that are derived from gas used for each purpose.

Market impact considerations

We consider that the proposed rule reduces the incentive for market participants to contract storage at the DLNG facility. The intention of the rule is for AEMO to contract all spare capacity prior to winter and for stored gas to be available for transfer to participants. This appears to provide a zero-cost call option over stored gas to market participants. If this is the case, then the more costly option becomes for market participants to manage risk by purchasing storage capacity and to store gas. This would be substantially less attractive commercially and we therefore see the proposed approach further disincentivising market utilisation of the DLNG facility.

To avoid disincentivising market utilisation of the DLNG facility and crowding out market participants, we suggest a different approach aimed at providing transparency and enhancing the efficiency of the reliability service being contemplated. We propose that AEMO be required to forecast the amount of storage capacity required to guarantee both secure operation of the DWGM and reliability over the winter period and commit to purchasing only this amount of storage capacity and gas. This forecasting exercise would be completed 6 to 12 months in advance of the winter period and would signal to market participants the limits of AEMO's security and reliability requirements. Participants could then undertake their own storage capacity purchases within the remaining available capacity at the DLNG facility guided by their own commercial considerations. At the end of March AEMO could then reassess the needs of the system for reliability and undertake further purchases if insufficient capacity has been contracted by participants to align with AEMO's forecast requirements winter. This would ensure that only the efficient level of gas and storage in the DLNG is acquired by AEMO reducing costs to end users. It may be necessary to limit participant access to this final gas reserve to avoid duplicating the incentives contained in the proposed rule.

This alternative approach would provide transparency to market participants and consumers and limit the risk to consumers inherent in the current proposal. We consider it necessary that AEMO forecasting be done in accordance with an approved methodology which meets best practice forecasting principles as well as consultation with a wide range of stakeholders to ensure robust assumptions are made and that market participants and consumers have confidence in the outcomes that will guide AEMO actions.

An area that may need to be considered as part of this rule change is the ability for AEMO to restock gas into the DLNG reserves during the defined winter period if gas is dispatched from the reserves. AEMO seeking to restock gas during the defined winter period may lead to adverse and unnecessary competition for gas during this period. We propose that the rules implement a defined limit that prevents AEMO from restocking gas during the defined winter period unless gas held in storage falls below a defined percentage level of the AEMO procured DLNG gas reserves.

A further issue that needs to be addressed as part of this rule change process is a form of guaranteed ability for market participants to be able to access and use their contracted gas storage. To this end improvements to the Gas Rules regarding the process and transparency around the declaration of threats to system security notifications are required.



Cost Recovery

This rule change when implemented will result in additional costs for the AEMO DLNG security and reliability gas reserves on the Victorian gas market which will ultimately be passed through to consumers. Shell Energy considers that these additional costs should be implemented by AEMO in a way that the costs are minimised and are transparent to the market.

As the need for AEMO to procure and maintain a level of DLNG system reserves relates primarily to high consumer usage during the winter period, Shell Energy supports a cost recovery approach that would allocate costs in proportion to demand during the peak winter period. Allocating costs based on annual consumption would be an inappropriate approach as it would increase costs to consumers that are not necessarily contributing to the increased demand during winter. By allocating costs based on winter consumption we believe that market incentives could contribute to a reduced requirement for reliability supplies provided under the proposed mechanism. We therefore recommend that the Commission provide guidance to AEMO to develop procedures that align with this principle.

Whilst we support the simplicity of the recovery of the acquisition costs for both gas storage at the DLNG facility and the initial gas stored through Participant Fees, we believe that any costs imposed should be reflective of commercial terms that support reasonable and efficient cost outcomes and be consistent with the National Gas Objective.

Reporting

Transparency of AEMO's commercial arrangements and market operations with regard to the DLNG facility will be crucial to maintaining stakeholder confidence in the efficiency of the provision of system security and reliability in the DWGM. We recommend that the Commission embed this principle within the rule change to guide reporting requirements for AEMO. In addition to implement best forecasting practice outcomes for decisions around the DLNG gas storage reserves, the market would benefit from the timely release of details from AEMO regarding the price and volume of storage procurement as well as the price and volume of any gas purchases, sales or transfers including relevant counterparties. Weekly market notices summarising AEMO's operations may be appropriate when gas is being procured to fill the storage. A summary operational report released prior to winter should be a minimum requirement and we consider a post-winter summary of costs and their allocation similar to that provided in the National Electricity Market for dispatch of the Reliability and Emergency Reserve Trader would also be beneficial to stakeholders.

For any questions regarding this submission please contact Peter Wormald (peter.wormald@shellenergy.com.au).

Yours sincerely,

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