



15 April 2021

Ms Daniela Moraes
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

By email: <https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Ms Moraes

RE: EMO0041 – Review of the Gas Supply Guarantee Consultation Paper

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation on the Gas Supply Guarantee.

Shell in Australia

Shell Australia Pty Ltd has been providing energy to Australians for 120 years. We are deeply aware of the need to play our part in supporting a strong, transparent and functioning domestic gas market. Shell Australia has continued to be an active participant in the east coast domestic gas market both through its role as operator and shareholder in the QCLNG project and its shareholding in the Arrow Joint Venture (JV) in Queensland.

In 2017, Shell Energy was established as Shell's trading arm seeking to bring increased diversity of supply to the Australian market. In 2019, Shell Energy Australia acquired 100% of the shares in ERM Power and delivers business energy solutions and innovation across a portfolio of gas, electricity, environmental products and energy productivity for commercial and industrial customers. Shell Energy is the second largest electricity provider to commercial and industrial businesses in Australia¹, we offer integrated solutions and market-leading² customer satisfaction, built on industry expertise and personalised relationships. We also operate 662 megawatts of gas-fired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and are currently developing the 120 megawatt Gangarri solar energy development in Queensland. Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy.

www.shellenergy.com.au

General Comments

In December 2020, Shell reconfirmed its commitment to the Australian Government, through the Heads of Agreement, to support efforts to make gas available to meet peak demand periods in the National Electricity Market (NEM) through the Gas Supply Guarantee (GSG).³ Further, Shell supported the extension of AEMO's GSG Guideline to March 2023 as a short-term measure to facilitate this voluntary commitment.⁴

The AEMC has been tasked by Energy Ministers to review the GSG to establish its value to the NEM and electricity consumers. In particular, whether it (or an alternative mechanism) is needed to '*ensure continued supply of gas to support peak demand periods in the NEM*'. We note the GSG mechanism was an industry-led solution, to provide governments and regulators confidence that gas-powered generators (GPG) would have access to gas to meet unexpected high demand in the NEM due to perceived gas supply shortages.

¹ By 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 2011-2020.

³ <https://www.industry.gov.au/sites/default/files/2021-01/australian-east-coast-domestic-gas-supply-commitment-heads-of-agreement.pdf>

⁴ <https://aemo.com.au/energy-systems/electricity/emergency-management/gas-supply-guarantee>



The GSG has not been triggered since it was introduced in 2017. Similarly, AEMO's ability to trigger the need for the injection of contingency gas under the short-term trading markets (STTM) to balance gas supply and demand has not been activated over the same period.

Established mechanisms have functioned as designed to manage any reliability risks in the NEM. Since 2017 significant electricity market reforms have been introduced (i.e. retailer reliability obligations, enhanced RERT, generator recall information obligations, semi-scheduled generator dispatch obligations and increased wholesale demand response reporting obligations) to better manage perceived reliability risks. Additional reforms including 5 minute and global settlement and the wholesale demand response mechanism are due to become active later in 2021. Further reforms are currently being considered to ensure the right incentives are in place to underpin efficient investment in electricity services to maintain reliability of the NEM (i.e. Post 2025 NEM). AEMO has also improved its short-term forecasting which was the primary issue that led to the involuntary load shedding event in South Australia on 8 February 2017 and is more proactive in seeking additional information from market participants when the provision of this information is required.

The domestic gas market has also undergone significant reforms to support enhanced liquidity. Shell remains confident that both the gas and electricity markets will continue to deliver effective solutions and as a core principle, we want to see markets work in a transparent, efficient and competitive manner. Over the past five years Shell has constructively supported the introduction of the HOA, Australian Domestic Gas Security Mechanism (ADGSM), the ACCC Standing Inquiry, COAG gas transparency measures, gas market reform processes (i.e. arbitration, information disclosure, day-ahead auction and short-term capacity trading), and through APPEA we are currently working on a voluntary code of conduct as part of the Australian Government gas-fired recovery plan.

It is our view that the AEMC should recommend that the GSG be discontinued from 2023. The context and circumstances of both the electricity and gas markets have significantly changed since the GSG was introduced and other market mechanisms are in now place, or being developed, to better support reliability in the NEM.

Problem definition

Shell will continue to make gas available to the domestic market and we consider that GPG's have sufficient access to gas supply to make generators available to support NEM system reliability – through gas contract arrangements or AEMO's facilitated markets. It's unclear to us that a problem which requires solving actually exists, given the fact that GPG operators have not previously indicated at any time that a problem sourcing gas for operations exists. Neither the GSG nor STTM contingency gas framework has been required to be activated supports this. It should be noted that with regards to the events of 8 and 9 February 2017, Engie at no time indicated that gas to power Pelican Point was unavailable, only that gas was not currently contracted to support the submission of daily dispatch offers of the additional generation at Pelican Point into the NEM.

Further supporting Shell's view, AEMO predicts annual gas consumption from GPG to continue to decline over the short to medium term due to the growing share of renewable generation complemented by storage.⁵ In addition, the Reliability Panel in its current review of the reliability standards and settings guidelines notes *'over the past 14 years, interruptions to power supply in the NEM due to a lack of available capacity have been very rare. That is, there have been very low levels of unserved energy across all NEM regions'*.⁶ On the rare occasions where involuntary load shedding has occurred in the NEM, none of these events have occurred, or been influenced, due to a shortage of gas for GPG. To this regard, we consider that there is no market failure or gap in the gas market which warrants additional rules or obligations on gas market participants to support a level of reliability in the NEM.

We consider that the GSG places a disproportionate level of burden on producers and pipeliner's to support peak electricity demand as GPG's could potentially use it as a quasi-energy input reliability mechanism and not actively or prudently manage their gas positions. The GSG also creates a complexity in the gas market as to how to value flexible gas supply during these peak periods, particularly as GPGs under some conditions can receive a substantial return. We do note however, that due to the real time pricing structure of the NEM, such returns are not guaranteed.

⁵ AEMO, 2021 Gas Statement of Opportunities, pg 31

⁶ Reliability Panel, Review of the reliability standard and settings guidelines, Consultation paper, 4 March 2021, pg 5



Shell is also concerned that market distortions from the GSG will prevent the development of wholesale gas demand response where a large consumer(s) would voluntarily offer gas supply to the market at a price that compensates for its loss of productive output. Instead, the GSG could result in a diversion of its gas to GPG with no compensation received. This seems at odds with the emphasis being placed on development of the wholesale demand response mechanism in the NEM.

The consultation paper highlights the numerous electricity and gas market reforms introduced to improve NEM reliability and certainty of gas supply. Some of these reforms are yet to commence in active service, and others, whilst available, have rarely been active. These combined with changes in market dynamics, significant additional regulatory oversight and increased publication of data have, in Shell's view, made the GSG mechanism redundant. It is unlikely that the GSG can provide any demonstrable additional value to the NEM or consumers that recent or prospective reforms will not address. These reforms should be allowed to mature and commence operating before consideration of reforms beyond these, such as extending the GSG, are considered.

Continuing with the GSG over the longer-term also has the potential to further distort market signals. It could contribute to the delay in the development of the flexible gas supply options, including wholesale gas market demand response, that will be required to support highly flexible GPG operations in a NEM dominated by variable renewable generation and different forms of energy storage systems with various energy storage capability. Shell considers that gas buyers, including GPGs, will benefit from having the most flexibility and widest set of supply options.

We caution the AEMC against seeking a problem just because a potential solution is at hand. We are concerned that the consultation paper appears to be canvassing for other perceived problems that the GSG could potentially solve for (Question 1). It is critical that in reviewing the value of the GSG the AEMC assesses it against the assessment framework as well as why the GSG was introduced in the first instance and clearly identifies if there is a real, tangible problem for GPG's in accessing gas supply in peak electricity demand periods.

We welcome the opportunity to discuss our submission further. Please contact Carmel Forbes at carmel.forbes@shell.com or 07 3364 2404 for any queries regarding this submission.

Yours sincerely

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