



9 September 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 Draft Report

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Draft Report on the Gas Supply Guarantee. In this submission Shell companies are referred collectively as "Shell".

Shell in Australia

Shell 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 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.

Shell Energy is Australia's largest dedicated supplier of business electricity. We deliver business energy solutions and innovation across a portfolio of gas, electricity, environmental products and energy productivity for commercial and industrial customers. 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

As raised in our previous submissions to this review, Shell considers that gas-powered generators have sufficient access to gas supply to make generators available to support NEM system reliability – through gas contract arrangements or AEMO's facilitated markets. Shell notes the Gas Supply Guarantee (GSG) has never been used and is not actually required to facilitate 'the role AEMO can play in bringing industry together to share information when it is needed most'. AEMO has the ability and tools already in place to do this without the GSG mechanism. As such, Shell's position continues to be that the GSG is not required post 2023.

Shell is committed to ensuring gas is available to the domestic market. We do not agree with the AEMC's observation that there is some risk that the east coast gas market will not always be able to provide enough gas in time to adequately supply gas-powered generators during future electricity peak demand periods. We note that during the extended Callide B and Callide C failure event (25 May to 26 July 2021), the Yallourn Power Station offloading event due to potential mine flooding (11 to 26 June 2021) and the Longford gas processing facility failure event (2 to 18 July 2021) no gas supply shortfall occurred. Overall, the market demonstrated its ability to supply gas to gas-power generators at a time of very high consumer gas demand and higher than normal gas-power generator output.

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.



We recognise that need for the AEMC to provide confidence to governments during a time of significant change to the NEM market fundamentals. While Shell does not consider the GSG necessary, the AEMC's proposed draft recommendation is a prudent approach, that is:

- for the Australian Government to extend the term of the Gas Supply Guarantee another three years to March 2026
- that an assessment on the long term need of the Gas Supply Guarantee be carried out prior to the conclusion of this extended period.

Defining a gas supply shortfall

The AEMC has proposed that a peak NEM demand period was an unlikely driver for a gas supply shortfall event, and that a definition based on some other peak demand, such as a regional peak, might be more appropriate. The AEMC has proposed the following gas supply shortfall definition –

“a shortfall in gas supply available to meet the fuel requirements for Gas Generators to operate at the capacity required during forecast low reserve condition (LRC), forecast or actual lack of reserve condition (LOR) occurring in the NEM, or to meet electricity demand in a part of a NEM region”

Shell considers that this proposed change provides little clarity and doesn't add value above the current definition. Instead, Shell proposes an alternative gas supply shortfall definition for the AEMC's consideration -

“a shortfall in gas supply available to meet the fuel requirements for Gas Generators to operate at the capacity required during a period of forecast low reserve condition (LRC) or forecast or actual lack of reserve condition (LOR) – Level 2 or 3, occurring in any NEM Region(s) where a gas fuelled generator has indicated a reduction in availability due to fuel constraints”

We consider that this definition better meets the objective of the GSG. Shell notes the 2021 Electricity Statement of Opportunities³ found that there is no reliability gap forecast for the next five years and that there are currently no forecast low reserve conditions declared in any NEM region.

Declaration of actual lack of reserve remains based on AEMO's prevailing forecasts at the time, and not based on actual power system outcomes. As such, Shell does not consider it practicable for LOR 1 to be a trigger for the GSG. Most forecast LOR 1 conditions do not translate to actual lack of reserve conditions. If AEMO triggers the GSG at this stage, we consider that it may interfere with normal market signals for generators to respond. Instead, Shell proposes that the trigger should at least be at LOR 2 or LOR 3. For example, even during the Callide incident, all available Queensland gas peaking plant responded rapidly to the incident and gas peaking plant in other regions responded as needed, based on the prevailing interconnector limits between New South Wales and Queensland. The electricity and gas markets worked as designed to ensure power system security and reliability without the need of an intervention to facilitate gas supply to these plants.

Shell also has not observed an actual lack of reserve condition occurring where gas powered generation has reduced availability indicating lack of gas/fuel. Gas generators have typically been able to manage their fuel availability and should continue to have the primary responsibility for managing this risk. As such, there is no sense triggering the GSG for an LOR2 or LOR3 where gas generators have not indicated loss of availability due to fuel constraints. To do so would, in our view, be broader than the purpose of the GSG.

Further, Shell considers that it would be prudent for an independent 'after the event' review to occur if the GSG is triggered based on a definition that includes LRC or LOR. Both AEMO and the AER are not currently required to review the declaration of lack of reserve conditions after the event to confirm an actual LOR existed. This will ensure that the GSG is being used for its intended purpose.

Potential improvements and alternative measures

The AEMC notes that it will consider potential changes to the GSG mechanism posed by AEMO. This includes:

- **Mandatory extended pre-dispatch** - Shell supports the AEMC's decision to not assess the concept of mandatory extended pre-dispatch in the NEM in this review. We do not support a mandatory extended 7-day pre-dispatch in the NEM given AEMO's current voluntary 7-day pre-dispatch has not

³ https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/nem_esoo/2021/2021-nem-esoo.pdf?la=en



demonstrated that it will achieve any positive outcome from a GSG or gas supply co-ordination perspective, nor for AEMO to facilitate NEM reliability and secure operation of the power system.

- **ST PASA rule change request** – Shell considers that the ST PASA rule change request is the appropriate mechanism to assess whether the current capacity adequacy processes are adequate.
- **Improve Gas Bulletin Board data** – Shell agrees that improvements to data quality will be achieved through this reform and no other data transparency requirements are needed.
- **Application to broader system security NEM requirements** – Shell considers that the GSG does not need to be expanded into areas associated with power system services such as system strength. The AEMC is already moving to address the need for power system services going forward on a technology neutral basis.
- **Coordinating planned maintenance across east coast gas infrastructure** – Shell has not participated in the South East Australia Gas Maintenance Co-ordination Workshop forum. We understand that it is mainly facility owners who attend. While the forum is beneficial from a system security perspective, we do not believe that this forum needs to be linked to the GSG.

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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