



2020 Biennial review into liquidity in wholesale and gas pipeline trading markets

AEMC – consultation on draft report

SHELL AUSTRALIA RESPONSE

14 May 2020

Shell is a global group of energy companies, with its headquarters in The Hague, the Netherlands. Shell operates in over 70 countries around the world and has been investing in Australia since 1901. Australia continues to be a priority market for Shell's investment as Australia trends towards greater electrification in line with consumer needs for a lower-emissions energy system.

Shell Australia is committed to supplying gas to domestic customers and is in a strong position to support Australia's energy market transition. With increased investment in renewable generation, access to natural gas will have an important role as a fuel source for gas-fired generators to provide firming and security services. The recent acquisition of ERM Power as a wholly-owned subsidiary of Shell Energy Australia, unlocks growth opportunities to support the National Electricity Market as it transitions to more renewable flexible generation and storage.

Our energy trading venture – Shell Energy Australia – has enabled us to further supply gas to the east-coast domestic market. We have been an active member of the Wallumbilla Gas Supply Hub since its introduction and participate in the Short-Term Trading Markets and Day-Ahead Auction. Through our QGC project and Shell Energy Australia we have supplied:

- 99 PJs to the domestic market- equivalent to around 16% of east coast demand in 2019
- 94.5 PJs to the domestic market- around 16% of total east coast demand in 2018
- 147 PJs to the domestic market- equivalent to around 26% of total east coast demand in 2017

GENERAL COMMENTS

Shell Australia supports deep, liquid and transparent trading markets. We consider the recent gas market reform processes (i.e. arbitration, information disclosure, day-ahead auction and short-term capacity trading) have gone some way in ensuring the development of a more liquid east-coast domestic gas market. We believe the market is still adapting to the recent reforms and time is required to determine how effective these reforms have been in supporting competitive outcomes. As such, we support the Commission's view in the draft report that it is too early to consider further major gas market reforms at this time.

However, we note that the Commission will consider areas for improvements, as suggested by participants, in its final report. Shell Australia encourages the Commission to ensure proper consideration is undertaken on any proposed improvement to the gas market to enable efficient and effective outcomes. We welcome further discussion with the Commission on any future gas market reform or the following high-level points.

- Shell Australia continues to see an on-going role for bi-lateral/over the counter trading in the market. This enables participants to be innovative and tailor terms to meet the specific needs of the customer.

- The Wallumbilla Gas Supply Hub has been relatively successful at facilitating trade at a number of virtual trading points, we would support examining if liquidity may be improved through:
 - increasing the number of virtual/notional trading points on more pipelines
 - seeing all the virtual/notional trading point available to trade on the exchange.
- It would be worth exploring whether prudential arrangements could be consolidated and aligned across all markets to reduce cost and complexity.
- Shell Australia considers that the day-ahead auction has been a good initiative which will contribute to a more mature market.

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