



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

AEMC – consultation on scoping paper

SHELL AUSTRALIA RESPONSE

20 February 2020

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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.

On the east-coast, Shell has a majority interest in and operates the QGC-LNG project in Queensland. Through this project we have a strong presence in the east-coast gas market, supplying both domestic and LNG customers. The energy trading venture – Shell Energy Australia – has expanded our gas trading portfolio into the southern domestic gas market, introducing competition. We also operate the 144MW Condamine Power Station in the National Electricity Market (NEM). The recent acquisition of ERM Power as a wholly-owned subsidiary of Shell Energy Australia, further unlocks growth opportunities to support the NEM as it transitions to more renewable flexible generation and storage.

Long-term success of both the Australian economy and companies such as ours will be highly dependent on our ability to anticipate the types of energy and technology needed to support a reliable, flexible and cost-effective electricity grid. As investment in renewable generation continues to grow, natural gas will have an important role as a fuel source for gas-fired generators to provide firming and security services to the grid. Deep, liquid and transparent gas trading markets will be essential to support this transition.

Shell Australia welcomes this opportunity to comment on the ‘2020 Biennial review into liquidity and gas pipeline trading markets scoping paper’ and looks forward to further engagement with the AEMC on this review.

### **GENERAL COMMENTS**

Shell Australia is an active market participant across the east-coast and are a strong supporter of the gas supply hub, day-ahead auction and short-term capacity trading markets. We are keen to see the level of trading on these exchanges continue to grow to increase price transparency, market liquidity and to encourage the development of forward markets to enable participants to better manage risk. We also see an on-going role for bi-lateral trading to enable the tailoring of products to customers that would otherwise not be possible.

Shell Australia is supportive of the AEMC relying on publicly available information to undertake this review. We consider that there is a range of information and data already reported on, and by using this it will reduce the reporting burden on businesses. In addition, we would like to understand the role of this review in light of the AER’s market monitoring role, its Wholesale Quarterly Reports<sup>1</sup> and the ACCC’s ongoing Gas Inquiry.<sup>2</sup> We recommend the AEMC provide clarity as part of this process.

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<sup>1</sup> <https://www.aer.gov.au/system/files/Wholesale%20markets%20quarterly%20Q4%202019.pdf>

<sup>2</sup> <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025>

We note that the terms of reference require the AEMC to advise the COAG Energy Council on whether any further reforms to the trading markets are required to promote the Vision and the NGO. Shell Australia considers the recent 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 caution against making further changes to the market until sufficient time has been given to determine the effectiveness of these reforms.

Further, as highlighted in our submission to the COAG Energy Council's *consultation regulation impact statement on options to improve gas pipeline regulation*, mature gas markets that we operate in globally have typically introduced a package of measures that work together (e.g. capacity expansion obligations, national expansion planning) to increase competition and liquidity. Any consideration of further reforms should take a more holistic approach and give equal consideration to aspects which will ensure the optimal and efficient movement of supply at a price which reflects a competitive market, such as long-term pipeline development and incentive based economic regulatory frameworks.

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