



## Short Term Forward Market

Proposed Rule Change

SHELL AUSTRALIA RESPONSE

May 2019

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Shell Australia (Shell) welcomes the opportunity to provide comments on the Short-term Forward Market Rule Change Consultation Paper (the Paper) released by the Australian Energy Market Commission (AEMC). In summary, Shell supports the establishment of deep, liquid and transparent trading markets and considers this proposal is likely to enhance existing east coast financial power markets (i.e. while it is unclear why markets have not developed, we do believe there is demand for these products to allow for improved risk management). We would be supportive of the proposal assuming it can be readily integrated into existing Australian Energy Market Operator (AEMO) systems and that the costs are not excessive. As such, we support further investigation into the proposal.

### Shell in Australia

Shell has been active in Australia since 1901. Australia forms an important part of Shell's global natural gas business. Historically, our significant investments in Australia have spanned both the upstream and downstream sectors, but today we are primarily focused on the exploration, development and production of natural gas.

Over the past five years, Shell has invested over \$50 billion in Australia, including the 2016 combination between Shell and BG resulting in acquisition of the QGC coal seam gas (CSG) to LNG assets in Queensland. This makes Shell one of the largest investors in oil and gas in Australia and consequently cements Australia as one of our most important investment destinations.

Shell's business interests in Australia span the full spectrum of the energy market and supply chain. Shell is:

- A major player in the east coast domestic gas market and heavily involved in Australia's LNG industry on the east and west coasts;
- Establishing an energy and trading business to meet the gas, power and green energy needs of industrial and commercial customers;
- A large energy customer through our CSG business in Queensland;
- Owner of an existing combined cycle power station- *Condamine Power Station*.
- In the stages of making an assessment on a final investment decision on a renewable energy project; and
- Creating a domestic energy marketing and trading business through Shell Energy Australia (SEAu). SEAu actively markets and trades energy products (including power and gas) to C&I and other customers in both East and West Coast markets and holds an Australia Financial Services License.

Given our business interests in Australia span the full spectrum of the energy market and supply chain, we have a keen interest in Australia's energy policy framework.

## Short Term Forward Market

In responding to the Paper, Shell provides the following high level comments on the questions raised by the AEMC.

1. *How is short term risk currently managed in the NEM and would a short term forward market be beneficial to market participants*

Short term risk is managed via quarterly swaps, caps, Over-the-Counter (OTC) and bespoke derivatives. These are often not the most appropriate hedge instruments to be used by parties during periods of significant supply and demand changes. It is unclear why a market has not organically developed to support trading in short-term instruments, however, we believe market changes associated with the energy transition will create additional demand for these products in the future. A such Shell considers a short term forward power market could be beneficial to all market participants where there is greater uncertainty related to weather, demand, intermittent supply, dispatchable energy, and gas supply. An AEMO facilitated market is likely to be the most effective option to expedite the introduction of trading.

2. *What design elements should be considered as part of a short term forward market*

It is our expectation that the National Gas Rules will provide for market design principles and the details will be addressed in AEMO procedures. Notwithstanding this view, our comment on more detailed elements include:

- **Settlement arrangements/process** – We question how the variation between day ahead and real time dispatch and settlement will occur and recommend financial settlement, as demand forecast and generation forecasts versus actual can and do change throughout the day.
- **Alignment of related markets** – Consideration should be given to alignment with forward physical gas trading windows to support efficient gas fired power station dispatch.
- **Range of participants** - It is preferable to enable the broadest set of parties to be involved, just not those with physical generation.
- **Settlement Residue Auction (SRA) units** – Consideration should be given to including SRAs as part of the Short Term Forward Market.
- **Product design** – It would be preferable that the product(s) is not a financial product, to enable non-AFSL holders to participate.

3. *Implementation costs*

Costs need to be factored into the overall decision-making framework to ensure the concept is net beneficial over the short and long-term. It is currently unclear the level of analysis that has been undertaken by AEMO and to what extent major design elements will change the implementation and cost requirements. Shell would appreciate AEMO providing more detail on the various cost options as part of this consultation process. Key issues such as the number of additional staff required to dispatch and settle, how costs will be apportioned to participants on commencement and how AEMO intends to foster new participants need be factored into the decision making process.

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