



Shell Australia Pty Ltd

ABN 14 009 663 576

562 Wellington Street

Perth WA 6000

Australia

Website: www.shell.com.au

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Tel: +61 8 9338 6000

Mail: PO BOX A47 CDC
Perth WA 6837

18 May 2017

Dear Mr Pierce

**REVIEW OF THE VICTORIAN DECLARED WHOLESALE GAS MARKET – ASSESSMENT OF
ALTERNATIVE MARKET DESIGNS**

Shell Pty Limited (**Shell**) (a member of the Shell Group) welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) Report on the Assessment of Alternative Market Designs (the Report) as part of the Review of the Declared Wholesale Gas Market (**DWGM**). While we welcome consideration of alternative options, overall our position remains relatively unchanged to our earlier stated views. Shell has a preference to explore the practical implementation of the Entry-Exit model and how issues raised by stakeholders may be appropriately addressed.

In terms of the alternative options presented, from the perspective of a potential new entrant, Shell considers these (either individually or collectively) are unlikely to deliver the level of change required to address some of the fundamental issues with the DWGM that might be inhibiting the entry of new competition. In particular, they do not substantially reduce the operational complexity of the market. They largely add additional complexity to an already detailed market design and may result in new unidentified risks. Furthermore, the DWGM is characterised by a small number of large players, which in itself is likely to be hindering the development of a well-functioning secondary market. The entry of new supply participants would increase upstream and downstream competition and aid overall liquidity however, first the complexity of the market needs to be addressed. Our specific comments are outlined below:

- Through our involvement in the East Coast Gas Market, we recognise that the market arrangements/design, including the DWGM, could be altered or improved to enable gas to flow to where it is needed most and encourage new competition.
- We agree with the AEMC regarding the issues with the DWGM namely there is a limited ability for participants to manage price and volume risk and that there is no active financial derivatives market due to the complexity of the DWGM and longer-term signals are opaque as it is a daily market.
- While we are not currently a registered participant at the DWGM, we recognise the rules are complex and significant price and volume risk exists for new entrants (i.e. those without Authorised Maximum Daily Quantity (**AMDQ**)) and the potential of uplift/derivation charges). While a number of options aim to address some of these risks, which may provide some direct benefits, significant complexity remains embedded in the overall design.
- As previously stated, conceptually the issues with the market design could be addressed through an Entry-Exit model where firm capacity can be procured through a transparent process and the DWGM would become a balancing market. As previously mentioned, Shell has observed this type of model working effectively in a variety of other mature gas markets. That being said, we recognise that the DWGM has unique characteristics (e.g. size) and it is important these issues together with the

interlinkages with the other East Coast Markets are fully understood. It was our expectation this might have been the next step in the review process. We note the Report does not expand on these issues and it is our preference from here that AEMC explores these issues as a priority before making a decision regarding the other options.

- Notwithstanding these points, the introduction of a Gas Supply Hub (GSH) locational trading point (either within or external to the DWGM) might assist in providing greater transparency around gas transactions and may increase the shorter-term opportunities for parties. This is not our preferred model and we recognise it is a departure from the Entry-Exit style model. However, if the AEMC does not recommend moving forward with Entry-Exit, this option should be considered in more detail. It may offer some improvement on the existing arrangements without creating additional complexity if appropriately located with In-Point-Trade-Points (IPT) established. It also aligns with the GSH framework that operates elsewhere on the East Coast (Wallumbilla and Moomba). We would envisage Culcairn would be the appropriate location directly linking the Victorian and New South Wales Markets.
- Overall, we are concerned that the DWGM review process is somewhat unpredictable including the unexpected need to revisit earlier options and significant differences in views still appear to exist between the AEMC and other stakeholders (e.g. incumbents). For these reasons, we are concerned the process is at risk of failing to deliver clear recommendations, which would embed more uncertainty around the future of the DWGM. To avoid this, we would suggest the AEMC put forwards a revised timeframe allowing for a full consideration of the Entry-Exit model taking account of the points raised by stakeholders.

We would be pleased to discuss any issues raised in this submission and please do not hesitate to contact me or Ms. Erin Bledsoe (0409 877 116) if you have questions. As previously advised, we are also happy to consider further opportunities to share Shell's insights into the operation of the European Gas Markets.

Yours sincerely,



Tom Summers
Vice President Supply and Optimisation