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

12 January 2017

Dear Mr Pierce

DRAFT RULE DETERMINIATION – GAS DAY HARMONISATION

Shell Pty Limited (**Shell**) (a member of the Shell Group) welcomes the opportunity to respond to the Australian Energy Market Commission (**AEMC**) Draft Rule (and Determination) – National Gas Amendment (Gas Day Harmonisation) Rule 2016 (**the Draft Rule**). Shell supports the development of liquid and transparent markets and the recommended reforms agreed to by the COAG Energy Council to improve the functioning of the east coast gas market. Consistent with this view, we support the concept of harmonising the gas days across the east coast. It signifies an overarching commitment to establish a truly integrated east coast gas market and in theory standardised arrangements, generally, should reduce barriers to trade enabling gas to flow to customers who value it most.

Given, however, the material costs involved (based on Shell's costs and those outlined in other submissions, total industry costs are estimated to be in the order of $20 to $25 Million (AUD), which were not fully understood by industry when the proposal was initially recommended) and that a large proportion of these costs will be borne by a small number of Queensland based participants, we are not convinced of the overall need to implement the change to enable liquid gas markets to develop. Other options may be available and should be considered.

Furthermore, the east coast gas market is facing supply challenges over the medium-term and a reduction in exploration activity due to economic and international market conditions. This highlights the importance of reducing unnecessary business costs. As such, we question whether introducing changes that increase the cost burden on business is reasonable at this point in time and if this is the most appropriate use of capital.

This overall position is formed on the basis of the following points:

- Further analysis of the benefits and the need for change - There has been considerable work undertaken by industry on the costs, which are clear and quantifiable. Whereas, the benefits presented by the AEMC are based on expectations of how the market may evolve over the medium to long-term. Based on Shell's experience, the current arrangements are not materially inhibiting trade. In our view, other reforms will have a more meaningful impact on improving liquidity in the market. It is also unclear whether the change is essential for the successful implementation of the other gas reforms.

- The costs are material for industry - Shell confirms that if the Draft Rule is introduced, it would be required to update its metering systems throughout the QGC Joint Venture Project at an estimated cost of $10 Million AUD. Furthermore, due to the nature of the work involved in implementing the change, these costs are very unlikely to fall if the timeframes are extended. Although setting the commencement timeframe for 2021 to allow for improved planning and budgeting for impacted businesses such as Shell, the costs will still be unavoidable.

- Alternative options may be available - It is our preference that the gas day across New South Wales (NSW), Victoria and South Australia (SA) is harmonised with Queensland remaining under the current arrangements. A reasonable proportion of gas would be traded under a standard gas day and the cost and risks associated with shipping gas from Queensland to the southern states (and vice-a-versa) would be reduced. The requirement for Queensland to shift could be reviewed following the implementation of the other gas market reforms and taking account of observed benefits from this "first phase" change. Based on Shell's assessment the implementation processes, to give effect to the change in Queensland, could be introduced within a twelve to twenty four month window if considered necessary.

- Consideration of how to best apportion the costs - if the Draft Rule proceeds, consideration should be given to how to most appropriately apportion the costs incurred by industry. Currently a small number of Queensland based participants would incur a disproportional share of implementation costs due to necessary system changes. We suggest consideration of this issue should be based on the principles of equity and derived benefit. Other impacted parties (e.g. pipelines) may have capacity to recover these costs through contractual pass through provisions. Furthermore, precedents exist in relation to the gas market and more broadly across the areas of Energy and Climate Change policy including the National Gas Market Bulletin Board cost recovery arrangements, which apply to Australian Energy Market Operator (AEMO) (and some pipeline costs) and "Payment for Closure" type proposals.

- There are clear operational reasons for the Queensland gas day - while we appreciate the basis for a 6am start time in Victoria and why this has been chosen as the appropriate start time across the rest of the east coast, there are sound reasons for an 8am start time in Queensland that should be considered as part of the process. In part, these are driven by safety considerations and minimising the need for operational staff to travel to sites during non-daylight hours. Given, the distances and conditions, this issue is likely to be more specific to Queensland. Furthermore, Western Australian also operates on an 8am to 8am gas day probably for very similar reasons.

- Related changes to the Declared Wholesale Gas Market (DWGM) - while likely, it is still unclear whether a 6am gas day in Victoria will be as important to managing the gas market and ensuring system security if the DWGM changes to a voluntary entry-exit model with continual balancing. It appears this issue has not been considered in detail. In our view, it would be disappointing if the Draft Rule was to proceed and an alternate market model for the DWGM allowing for more flexibility in term of the choice of gas day period was introduced.

In Summary, Shell considers it would be premature to finalise a decision at this point and recommends:

1. Further work is undertaken to understand and substantiate the nature and magnitude of the benefits of harmonising the gas day and how essential this is to the successful implementation of other gas market reforms.

2. Consideration is given to introducing a uniform gas day across Victoria, NSW and SA.

3. Options are considered for a more equitable apportionment of the costs.

4. Additional analysis is undertaken on whether the proposed changes to the DWGM reduces the need for 6am to 6am gas day in Victoria and whether alternative times might be possible.

We would welcome the opportunity to discuss any of the issues raised in this response. We also invite the AEMC officials to visit Shell QGC's operations to further understand the complexities this change represents for our business. Questions can be direct to me or to Ms Erin Bledsoe on 0409 877 116.

Tom Summers
Vice President Supply and Optimisation