



## Response template for the East Coast Gas System Guidelines Consultation

Email responses to: [gas.reform@aemo.com.au](mailto:gas.reform@aemo.com.au)

Review comments submitted by: *Shell Energy*

Confidential: NO

Date: 4/4/2023

Contact Person: *Peter Wormald*

Please complete sections 1 and 2.

### Section 1 - General Comments on the Guidelines

Topic	Please Provide Response Here
East Coast Gas System Guideline (general comments)	<p>Shell Energy considers the timeline for development and consultation on these guidelines, as well as the procedures, to be inadequate. As a result, it is our view that the East Coast Gas System guidelines and procedures do not fully align with the drivers of market outcomes in the east coast gas system and that AEMO's understanding of the practicalities of the physical market operations is not fully informed. These limitations could be addressed through detailed discussions with industry participants and other stakeholders. If this approach was undertaken we would expect that the information required to fulfill the new AEMO functions could be gathered in a timely manner. In addition, the Guidelines and Procedures would be much more targeted, far less burdensome for participants, and fit-for-purpose in bringing all stakeholders together to avoid gas market reliability and security issues.</p> <p>Shell Energy was disappointed with the outcome from the Procedures consultation which adopted only very limited, non-material feedback from participants and did very little to</p>

reduce the burden on the industry. AEMO's references to the requirements of the Rules as the basis for rejecting input and feedback were insufficient, particularly as the industry is yet to see the rules and had no input into their formulation.

Shell Energy regards the procedures and guidelines as unnecessarily burdensome and would have preferred to see AEMO lead an industry-wide collaborative approach to identifying any supply or demand remedies for the coming winter. This would then have given regulators and AEMO time to develop a more appropriate gas reliability framework for implementation in future years. Shell Energy supports the development of the stage 2 gas reliability framework and looks forward to working with AEMO on this essential, longer term reform.

We also note that the procedures and guidelines may result in unnecessary AEMO intervention to balance supply and demand when the existing market mechanisms could have provided a more efficient outcome. This dynamic could risk fostering non-commercial and inefficient market outcomes, such as reducing the incentive for gas consumers to forward contract for gas supply. An example of this is the lack of a clear threshold for AEMO intervention. Without a clear threshold, the market will be unable to fully understand the circumstances in which intervention may occur. This could lead to market participants not using existing market mechanisms to close their positions, further exacerbating system adequacy risk.

Section 2 - Feedback on the documentation changes in the Guidelines

\*\*\*Participants are to complete the relevant columns below in order to record their response.\*\*\*

East Coast Gas System Guidelines			
Procedure Clause #	Issue / Comment	Proposed text <del>Red-strikeout</del> means delete and <u>blue underline</u> means insert	AEMO Response (AEMO only)
2.2	It is unclear what constitutes an actual or potential threat to system security across the jurisdictions. Market participants need much more narrowly defined thresholds so that they can manage their exposures effectively. More narrowly defined thresholds would also help AEMO to manage system security more effectively.		
2.3	The breadth of potential action that AEMO can take under these guidelines will make it difficult for the industry to respond using existing market mechanisms. This is because any market response could be subsequently over-ridden by AEMO once a threat has been published. We recommend more clarity be included in the guidelines regarding the timing, potential impact, and compensation arrangements resulting from AEMO interventions following a market response.		
3.4 (a)	The option should remain for anybody to attend conferences if they wish, it is not clear that AEMO would have foresight of the effect that actions agreed with a subgroup of participants might have on others.		
3.4 (c)	The number of representatives from an organization should be determined by the organisation based on the level of expertise that may be required to resolve actions and issues.		

3.4 (e)	<p>Given the high penalty exposure of participants for not attending a conference, Shell Energy considers it necessary that AEMO should more clearly define the protocol for making contact regarding short notice conferences. A clear definition of ‘short notice’ should be included in the guideline (eg. less than 24 hours). Direct contact with participants must be pursued. Without a response from the participant it is impossible for AEMO to be certain that a conference notice has been received. Contact with participants should request a response within a defined timeframe to confirm receipt. Without this response AEMO should be required to progressively broaden its attempts to contact the relevant participant.</p> <p>Passive notices are not sufficient for the circumstances being considered in this section. Shell Energy’s preference is for contact to be made in person by telephone call to ensure that contact is made and confirmed. AEMO must pursue and keep records of direct contact attempts with participants that it considers are necessary to attend a conference.</p>		
3.5	Shell believes competition law risk is inadequately covered by the guidelines. Shell recommends AEMO seek further input on these risks given the level of communication and information sharing that could be required during conference calls.		
3.5 (h)	We support the language in this clause being clarified so that a participant can indicate information is confidential and therefore AEMO cannot share the information publicly.	AEMO <del>may</del> <u>must</u> engage directly with the participant outside of the conference	
4.1 a) and b)	Shell re-iterates that it is only the capacity within the LNG pipeline networks that are connected to the East Gas Network that can affect the reliability and adequacy of the East Coast Gas System. Any storage capacity in pipelines beyond this point is unable to contribute to addressing reliability and adequacy risks in the East Coast network. This consideration should be detailed in the procedures and guidelines, in consultation with relevant participants, to guide AEMO decision making and any response to an event.		

4.3	<p>Shell Energy recommends AEMO consult very closely with 3rd party operators of gas processing plants and pipelines prior to issuing directions to these facilities. These facilities face significant operational risks that may be inadvertently exacerbated by directions if not properly considered. Maintenance operations and asset integrity need to be managed in real time with only the facility operator fully aware of the potential impact of directions. The ability of 3<sup>rd</sup> party operators to communicate this information to AEMO so that it can effectively determine how best to direct these facilities will likely prove difficult. We recommend that AEMO rely on the operational expertise of these parties to ensure that operational risk and asset integrity risks to processing plants and pipelines are minimised, rather than attempting to implement operational decisions via directions based on potentially incomplete information and expertise.</p>		
4.4	<p>Shell Energy supports aligning the considerations for gas market directions with electricity market considerations. In particular AEMO should be required to consider the ability of the relevant entity to comply with the direction, taking into account risks and constraints.</p> <p>It remains unclear how directions will work when all BB shippers (off-takers) from a facility have maximised their nominations. For example, if AEMO directs a producer to increase production but no market participants have a contract to buy the increased volume of gas. If this is a circumstance where AEMO's trading powers will be used, we recommend comprehensive details of this process be included in the guidelines along with other circumstances AEMO considers relevant for exercising its trading function. Clearly defining the circumstances and process to be used by AEMO when exercising its trading function will provide clear guidance to participants and support continued efficient market operation.</p>		
5	<p>Shell Energy does not agree that AEMO should operate in the market as a participant, using its trading powers, in order to resolve issues concerning reliability and adequacy of the East Coast gas system. Rather, Shell Energy believes AEMO's powers to initiate an industry response and to issue directions are sufficient for this purpose. We are concerned that any interference in market mechanisms and the uncertainty arising from ill-defined intervention will distort market behaviour. This will dampen market signals and the ability for the market to resolve issues on its own, increasing risks over the longer term.</p>		

