STRUCTURE OF PARTICIPANT FEES IN AEMO'S GAS MARKETS

DRAFT REPORT

SHELL RESPONSE

MARCH 2018

Shell Pty Limited (Shell) (a member of the Shell Group) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO)'s Draft Report – Structure of Participant Fees in AEMO's Gas Markets 2018 (the Paper). As indicated in a previous submission, our interest in this matter relates primarily to the Gas Bulletin Board (GBB) cost recovery arrangements. Shell is also a member of the Australian Petroleum Production and Exploration Association (APPEA) and we support the submission APPEA has lodged on this matter. We would also like to provide the comments outlined below, which are additional to our response on the earlier consultation paper.

In summary, we recognise that AEMO has proposed an alternative methodology to that currently operating under the National Gas Rules (NGR) and we welcome that fees will be shared with those in the Short Term Trading Markets (STTMs) and Declared Wholesale Gas Markets (DWGM). We are however, concerned the current proposal will result in the LNG industry, including Shell, funding a disproportionate level of the GBB costs (although somewhat less than under the current arrangements) relative to (i) the benefits we derive from the service and (ii) our overall contribution to AEMO's costs. We consider it is important to ensure the costs are allocated appropriately now and into the future particularly if the GBB costs were to materially grow over time. We believe these issues can be addressed within the framework proposed by AEMO. In this regard:

1. There should be a realignment of the costs across producers and the DWGM and STTM participants – The proposed allocation of 50 percent of the costs to producers is too high for the following reasons:

    - The NGR is silent on the weighting AEMO should apply to each of the cost recovery principles, enabling AEMO to make a determination. In this case, it is unclear how AEMO has determined the 50:50 cost allocation across producers and other market participants. In our view, the allocation places a disproportionally high emphasis on the "reflective of involvement" principle relative to meeting the other principles and the overarching concept of directing the cost to those benefiting from the service. Furthermore, other parties contributing data to the GBB (and also giving rise to AEMO's costs) are excluded from the proposed fee structure (e.g. pipelines). This further reduces the relevance of the "reflective of involvement" principle in this context.

    - The QCLNG Joint Venture, as a gas producer (and shipper) already incurs internal costs and resources in producing information for publication on the GBB. Not only do these costs relate to IT and analytical resources, they include compliance oversight costs, (which are not insignificant). In addition, to incurring these costs, requiring QCLNG to then fund a sizable proportion of AEMO's GBB costs seems inconsistent with what would be expected under a reasonable and effective cost allocation methodology.

2. **Alignment with the Western Australia (WA) GBB –** We support a national approach where possible to energy sector regulation and there is clearly an opportunity for a common approach on this issue. With respect to the allocation of costs to producers, as we understand it is based on production destined only for the domestic market (i.e. exported volumes are excluded). We would welcome the opportunity to discuss options for implementing a similar approach on the east coast.

3. **Flexibility in the allocation of costs across producers** – The current proposal suggests levying producers as a distinct class of industry participant. As such we consider AEMO would be reasonably indifferent to the allocation of costs within the producer group. Although the Paper suggests this should be undertaken on a volumetric basis, we would appreciate AEMO giving consideration to other potential options that industry may put forward. We understand APPEA is seeking to engage with AEMO on this further.