STRUCTURE OF PARTICIPANT FEES IN AEMO'S GAS MARKETS

CONSULTATION PAPER

SHELL RESPONSE

FEBRUARY 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 Consultation Paper (the Paper) - the Structure of Participant fees in AEMO's Gas Markets. 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 have lodged on this matter. In our view, APPEA puts forward a practical solution to the issues addressed in the Paper.

In summary, we recommend that AEMO explore the APPEA option along with all other possibilities to share the GBB costs as broadly as possible across all those who use and benefit from the service and address the current disproportionate cost burden being placed on the QGLNG Joint Venture (and the LNG industry more generally). In support of this view we make the following comments:

1. In general the LNG industry, including Shell, has been funding a disproportionate level of the GBB costs - Shell as a Joint Venture participant in the QCLNG project supports the GBB as a tool to support trading and broader commercial and policy decision making in the East Coast Gas Market. Our allocated costs, however, over the past couple of years, far exceeded the benefits derived by Shell (and likely the other JV parties) from the service. While it is difficult to determine exactly, we estimate we have funded a quarter to half the costs over recent times and it would seem unreasonable for this outcome to continue. This was due to the cost allocation arrangements being developed prior to the entry of the LNG industry.

2. A new GBB fee structure is necessary and should reflect those who are benefiting from the service - AEMO's new fee structure should result in a change in how and who funds the GBB relative to the National Gas Rules (NGR) methodology. The costs need to be shared more equitable across those who directly use and benefit from the GBB rather than placing a disproportionate cost burden on individual parties, (such as QCLNG) as is currently the case. As we understand, when first developed, this was the original intention behind the rules based methodology (i.e. at that stage shippers were the main GBB beneficiaries and their volumes were a reasonable proxy for usage). This logic failed to work following the entry of the LNG industry and this consultation represents an opportunity to resolve this on-going issue.

3. .This issue was acknowledged by the Australian Energy Market Commission (AEMC) and it took steps to address the situation – In our view, the issue facing QCLNG and other LNG players was clearly recognised by the AEMC in the East Coast Wholesale Gas Markets and Pipeline Frameworks Review through removing the outdated methodology from the NGR. We understood that they intended AEMO to develop a more fit-for-purpose arrangement for the current market environment and into the future changes could be made more readily in response to an evolving market.

Furthermore, we do not believe that the AEMC, in removing shippers as registered GGB parties (as part of the recent Enhanced Information Rule Change) intended the service to be only funded by the remaining registered organisations (i.e. production facilities, pipelines and storage facilities). As such, this should not be used as a reason for restricting the reach of those funding AEMO's costs. The drivers behind these changes were to streamline and expand the gas infrastructure covered by the GBB informational requirements and not to guide the cost allocation requirements. It could be argued that these changes extend the benefits delivered to non-registered parties.

4. Focusing only on future registered parties risks no actual change – We are very concerned if the costs are only levied on the new set of registered GBB orgnisations it will lead to the same outcome for LNG players such as QCLNG - either maintaining or increasing their share of the costs. For this reason, funding coverage must extend beyond registered participants to encompass users on a fixed and variable basis and all options to achieve this should be explored.

   Also, the QCLNG Joint Venture, as a gas producer (and shipper) already incurs internal costs and resources in producing information for publication on the GBB. Requiring QCLNG to then fund AEMO's GBB costs seem inconsistent with what would be expected under a reasonable and effective cost allocation methodology.

5. The APPEA model offers a practical solution/alternative - we support the APPEA model as a way of practically addressing these issues and note it is consistent with AEMO's Guiding Principles for determining fees (particularly that fees should not unreasonably discriminate against a category or categories of participants) and the National Gas Market Objective. The model proposes a fixed and variable cost allocation model which would levy:

   a. A fixed fee on as wide as possible range of market participants (shippers, pipelines, producers, storage operators and other users who access the data service.

   b. A variable charge based on usage/shipping volumes which would recognise that gas users are the ultimate beneficiaries of the information provided by the GBB.

6. Alternative options such as combining other market costs could also be considered - our strong preference is to explore the APPEA model, however, as an alternative, the costs of the GBB and Gas Statement of Opportunities (GSOO) could be aggregated and the costs smeared across registered participants in the gas retail markets and the GBB on an equal basis. It would seem reasonable to combine these services for the purposes of cost allocation as they are both informational based. Furthermore, while we are not aware of any identified regulatory impediments to extending the cost allocation to non-AEMO registered parties, this option could apply in the case that it was considered necessary to only levy registered participants for practical or operational reasons. This, however, would only be sensible to implement if it resulted in a better alignment of service benefit/use with cost allocation for all participants.