



SHELL AUSTRALIA

14 January 2021

COAG Energy Council  
GPO Box 787  
Canberra ACT 2601

(via email to [gas@industry.gov.au](mailto:gas@industry.gov.au))

Dear COAG Energy Council

**RE: COAG Energy Council Consultation on draft regulatory amendments to increase transparency in the gas market: Shell Australia Submission**

Shell Australia (Shell) welcomes the opportunity to provide a submission to the COAG Energy Council's consultation on draft regulatory amendments to increase transparency in the gas market, released 19 November 2020.

Shell has provided feedback to previous papers on gas market transparency including the *COAG Regulation Impact Statement for Consultation on Measures to Improve Transparency in the Gas Market*, *ACCC-GMRG Joint Recommendations to Improve Gas Market Transparency Paper* and the subsequent *Reserves & Resources Reporting Framework Consultation Paper*. Feedback provided in this submission is complementary and builds on that advice.

As a company that is a gas producer and operator of the QCLNG project (QGC Pty Ltd), as well as a domestic market participant through Walloons Coal Seam Gas Company Pty Ltd, Shell Energy Australia Pty Ltd and more recently through ERM Power Retail Pty Ltd, Shell is deeply aware of the need to play our part in supporting a strong, transparent and functioning East Coast domestic gas market. We recognise these measures are an important step towards achieving this objective.

At the same time, in operationalising these changes, careful consideration must be given to balancing the benefits of the proposed measures to improve transparency in the gas market and the significant regulatory and compliance burden these place on existing and new market participants. Shell strongly suggests that the requirements for reporting must align with the practicalities for businesses on a day to day basis and not introduce new risks such as the disclosure of confidential information.

We responded to key questions in the attached submission template, but make the following broader comments regarding the implementation process:



### Further industry consultation

Shell notes that several important matters are still to be the subject of further procedures, including:

- (a) the development of the new GSOO procedures, and in particular the determination of reporting requirements for production cost estimates; and
- (b) the development of new Bulletin Board (BB) Procedures, especially those to apply to (a);
- (c) the publication of information about short term gas transactions;
- (d) the determination of criteria for proposed and committed new infrastructure development; and
- (e) development of the new AER price information order and price reporting guidelines.

It is essential that industry has ample opportunity for consultation and input on these consultations especially the methods and processes for ensuring the protection of confidential and commercially sensitive information through aggregation and anonymisation of data.

Shell is also requests that sufficient time and expertise is dedicated to the development of the procedure applicable to the reporting of production cost information. As noted in our previous submissions, this is complex information that is highly variable across projects. We reiterate that this process must address issues such as:

- how the typical upstream cost profile of exploration, development capital investment, operating costs and abandonment will be combined into a production cost
- how cross project costs such as infrastructure investment, tariffs and overheads will be allocated and included
- at what level data will be disclosed; production costs can vary significantly from well to well and field to field
- historical costs are not necessarily representative of future costs; as production declines unit costs tend to increase and as infrastructure ages its cost profile changes
- how the risks and uncertainties borne by upstream developers (such as exploration, subsurface/production, development timing and delivery and operating risks) will be captured in a production cost or understood by users of the data
- In developing the methodology, it is essential that there be a shared and workable approach as to how to incorporate issues such as 'risk' into the costs.

Shell remains concerned that this data could be misused and/or misunderstood, particularly in terms of assuming that the "production costs" should equate to the final cost of gas delivered to an end user or in assuming that 'production costs' of one operator is directly comparable to another. This ignores market fundamentals of supply/demand and the many other factors including transport costs and the pricing of risk within the gas sales contract (contract term,



certainty of supply, take or pay obligations, volume flexibility for the buyer etc.) that influence the final price a customer experiences and similarly how different corporate cost allocation methodologies are applied across different entities. Any reporting on production costs should appropriately reflect the other costs involved, ensure consistency as much as possible and may require the publication of explanatory material that brings together these issues into a coherent account.

In addition, Shell recommends that the new procedures mirror, as far as practicable, the language and scope of the current ACCC Gas Inquiry notices. During 2020 a new form of 'standard' notice was developed by the ACCC following consultation in order to make information collection clearer and more predictable. It would be beneficial if this work could be leveraged in developing the new procedures.

### **Duplicate compliance burden**

A number of the new GSOO and BB reporting requirements will duplicate existing reporting to the ACCC's Gas Inquiry. It is Shell's expectation that information on AEMO's BB would be used by the ACCC (and the AER) in order to reduce the compliance burden where possible.

### **Implementation timeframes**

We understand the expectation is that the BB requirements will be introduced during 2021. Shell is concerned this will place considerable pressure on businesses to introduce new systems and resources to support the additional compliance requirements. This is also occurring at the same time as these same businesses are responding to other significant reforms such as five-minute settlement. While industry is aware of the lead times, their ability to commence material work is highly dependent on AEMO's systems and data input design. Without this detail (which will also be subject to consultation), there is significant "regret" risk attached to any initial work resulting in additional cost for businesses. Overall, we are concerned about the smooth and successful delivery of these reforms in 2021 and recommend moving back the implementation date by six months to July 2022.

Shell welcomes the opportunity for further discussion on any of our feedback. Please contact Erin Bledsoe for any queries regarding this submission.

Yours Sincerely,

David Guiver  
GM Shell Energy Australia Trading