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11 August 2023

Dear Committee,

**RE: Economics and Industry Standing Committee Inquiry into the WA
Domestic Gas Policy**

Shell Australia Pty Ltd (Shell Australia) welcomes the opportunity to make a submission to the inquiry into the WA domestic gas policy by the *Economics and Industry Standing Committee* of the Parliament of Western Australia.

Overview

Shell has been providing energy to Australians for over 120 years. In Western Australia (WA), Shell Australia operates the Prelude Floating LNG facility and is a joint venture (JV) participant in the Gorgon and North-West Shelf (NWS) projects. In Queensland, Shell Australia operates the onshore QCLNG coal seam gas project and is a participant in the Arrow project. Through its energy solutions subsidiary Shell Energy Australia Pty Ltd (Shell Energy), Shell Australia provides energy solutions and innovation across a portfolio of electricity, gas, environmental products, and energy productivity for commercial and industrial customers.

Shell Energy's WA generation assets include the 342-megawatt (MW) gas-fired peaking power station at Neerabup (50% JV) and plans to develop the projects of the recently acquired Kondinin Energy Pty Ltd (Kondinin, 50% JV) which will be our first Western Australian renewables development (pending a Final Investment Decision). The centrepiece of the Kondinin project is the Kondinin Wind Farm, a development which would generate approximately 230 MWs into the South-West Interconnected System (SWIS). Kondinin also holds approvals to develop an 80MW solar farm and 60MW Battery Energy Storage System (BESS) which comprise stages three and four of the project.



Through its share of the Gorgon and NWS projects, Shell Australia is party to two WA State Agreements with domestic gas obligations.

The Gorgon State Agreement provides for a 300 terajoules (TJ)/day domestic gas plant and a 2,000 petajoule (PJ) domestic gas reservation commitment. In 2014, the NWS JV agreed to a variation to the NWS State Agreement to include a new domestic gas reservation commitment of 660PJ linked to approval to export up to 86 million tonnes of liquefied natural gas (LNG).

Domestic gas was initially marketed from each project on a joint basis. However, domestic gas is now marketed severally by each project participant according to their equity share, as was recommended by the 2011 Inquiry into Domestic Gas Prices.

Shell Australia continues to reserve and market its equity share of gas into the WA market, consistent with its obligations.

Please find below Shell's response to the Terms of Reference of the inquiry.

1. The adequacy of mechanisms to ensure:

a. Timely delivery of gas into the domestic market

Shell Australia supports the WA Domestic Gas Reservation Policy and considers it effective in ensuring adequate and timely delivery of gas into the domestic market. Much of the Terms of Reference for this Inquiry were addressed by the WA Department of Jobs, Tourism, Science and Innovation submission to the National Gas Reservation Issues Paper dated 27 November 2020¹ highlighting the WA Domestic Gas Reservation Policy and the State Agreements were indeed working effectively. Competition in the market and flexibility within the agreements have allowed for low-cost supply to meet demand as evidenced by sustained investment delivering additional domestic gas supply. Whilst in Shell's view the policy has been working effectively, more can be done in the future to encourage further investment, such as further streamlining of permitting processes and regulatory certainty, to increase supply and ensure the WA Domestic Gas Reservation Policy continues to deliver competitive new gas supply into the market to meet demand.

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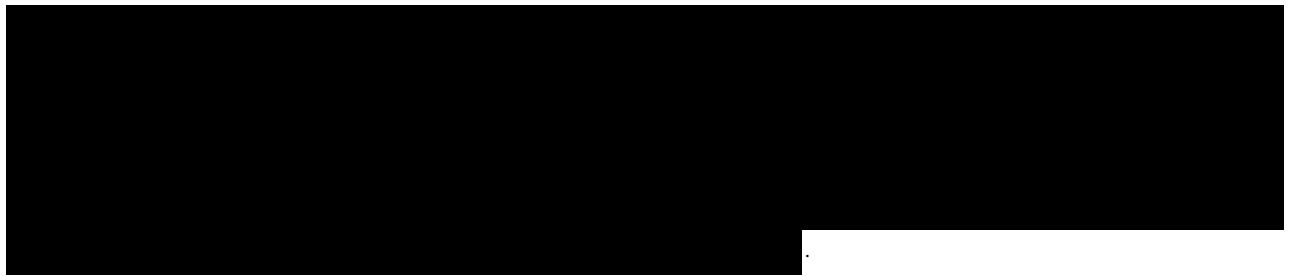
¹ <https://www.wa.gov.au/system/files/2020-11/Submission%20on%20national%20gas%20reservation%20scheme%20-%20WA%20JTSI.pdf>



b. Transparency of supply and price of gas available to the domestic market

Price & Supply

Whilst a sub-section of the WA market has seen gas prices rise in recent times due to gas supply disruptions, and coal shortages or logistics issues, prices over the procurement cycle (typically 3-year periods) continue to be significantly below the capped East Coast Market. In well-functioning markets, where there are different factors involved, including inflationary pressures and costs from regulatory changes impacting the economy (e.g. Australian Government Safeguard Mechanism), prices rise and fall sending investment signals to support the development of new supply and capacity. This is happening in WA with the gradual development of an onshore industry (particularly in the Perth Basin) and with projects like Scarborough progressing into the development phase and Browse gaining traction towards FID.



In Shell's view, the WA Government should resist calls from end-users to intervene in WA domestic gas market obligations that were agreed at the time of project approvals or in subsequent variations, and instead send a clear message to exercise prudent risk management in gas and energy contracting rather than seek or wait for further intervention from government. Different end-users have different requirements, but all must carefully consider what risk best suits their business. Relying on short-term or spot gas versus term supply may enable a buyer to enjoy lower prices when prices are falling but could leave them exposed to higher prices when the short-term market changes.

Transparency and reporting

Shell Australia considers the market to be relatively well informed through publicly available and subscription-based sources of information, however, sees some options for improved transparency.

As one option towards further improving price transparency, Shell Australia would support the development of a future Gas Supply Hub, noting however, that greater price transparency alone, will not insulate the WA market from experiencing changes in market pricing. In situations where supply is tight (or there are other energy factors at play), participants may choose to transact bilaterally to secure their gas supply and storage requirements thus negating the hub as a price transparency solution in these instances. The gas supply hub would add to the access to information for participants and help



keep transaction cost of buyers and sellers participating in the market low.

Shell Australia supports clearer guidance on reporting and would support the Australian Energy Market Operator (AEMO) in further developing the Gas Statement of Opportunities (GSOO) via consultation to improve the basis of forecasting domestic gas supply into the market. Additional transparency measures should be applicable to all producers (exporters and solely domestic suppliers) and end-users. If reporting relies wholly on producers, only half the equation will be present in establishing an informed market.

2. The State Government's role in ensuring adequate availability of domestic gas into the future, particularly over the short to medium term.

Other specific things the WA Government can do to help

The LNG export industry remains vital for the economic wellbeing of WA and Australia. Shell Australia emphasises that all market interventions result in long-lasting distortions that impact local and foreign investment decisions. Shell Australia appreciates this is balanced against other government objectives; our view however is that the WA Government should continue its leadership in maintaining a balanced and consultative approach to the domestic gas policy which has sustained WA's standing as an attractive state for investment. Shell Australia takes a multi-decade view when investing, and Australia's importance as a destination for capital owes its success to past policy stability, certainty of investment rules and proximity to growth markets in the Asia Pacific. Several of Australia's key international trading partners (with many of whom we hold long-term firm contracts) and their governments have voiced deep concerns given recent government intervention in the East Coast gas market, including concerns that Australia might be "quietly quitting" LNG to the detriment of its strategic trading partners. We urge the WA Government to consult with these key trading partners when considering any policy changes to the gas market.

In Shell Australia's view, the WA Government could do more to facilitate investment in upstream supply and infrastructure that would also create new jobs. More gas from more fields will support affordable domestic gas throughout the transition towards net-zero electricity grids. New gas supply will have the additional benefit of improving gas security and reliability.

Critical in any well-functioning and resilient energy market will be policies that deliver ongoing new investment into generation and transmission, particularly in the face of retiring coal power plants. Part of the solution will be through setting a framework that encourages more battery storage and other firming solutions to complement the increasing share of renewables in the SWIS. Specifically, to holders of domestic market gas obligations, another option to be more deeply explored is the concept of energy offsets of sufficient scale, in which new renewable energy projects could qualify towards fulfilling gas



obligations in equivalent energy terms. The policy already contemplates offsets of this nature but there is little clarity or guidelines which model how this element of the policy can be implemented.

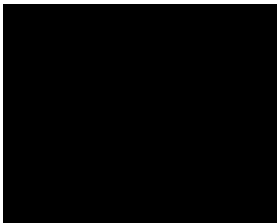
Finally, we believe the WA Government could consider development of gas storage capacity in its deliberations towards enhancing a stable and resilient gas and power market. As with electricity, gas can also be viewed through a lens of capacity and supply. Storage facilities like Mondarra and Tubridgi, and linepack within the Dampier to Bunbury Natural Gas Pipeline all serve as important tools to provide capacity in the event of unplanned plant outages or spikes in gas generated power as intermittent renewables steadily increase in market share and as coal retires from the market.

3. The findings and recommendations of the 2011 *Inquiry into Domestic Gas Prices*, prepared by the previous Economics and Industry Standing Committee (2008-2013), to the extent that they are relevant to the current inquiry's terms of reference 1 and 2.

Shell Australia has no specific feedback relating to the 2011 recommendations.

Should you have any questions on this submission, please contact Jamie Henderson, External Affairs Lead [REDACTED].

Kind regards



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Shell Australia