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7 November 2006

Dear Ian,

Thank you for the opportunity for Shell to provide comments on the discussion paper for Wholesale Market Design. We are supportive of the Gas Industry Company's work in Wholesale Market Design and see direction as positive.

We are looking forward to seeing functional detail on the protocols and standards for the wholesale market, and their consequent application to the design of the trading platforms.

Yours sincerely
Shell (Petroleum Mining) Company Limited

Murray Jackson

Submission: Wholesale Market Design

3 November 2006

Submission from: Shell (Petroleum Mining) Co Ltd

Questions	Comments
Q1: Do you agree with regulatory objective for the component of the Wholesale Market work stream? If not, what objective should the Gas Industry Co be considering?	Agree. The issue of the development of protocols and standards for wholesale trading is the key provision.
Q2: Do you agree with the general approach to assessing the different options using both quantitative and qualitative criteria? If not, what alternative approach, that also complies with the Gas Act, would you suggest?	We do not object to this approach Quantification of any reliable nature difficult and can be indicative only because the assessment is made on current perspectives which will be changed by market development.
Q3: Are there other time horizons that should be considered for the trading of gas? If so, what are those time horizons?	Market development should concentrate on the short-term trading market, long term arrangements can be private bilaterals referencing the standard contract of the short-term market in respect of technical issues of gas management, transport, measurement and allocation.
Q4: Are there any other reasonably practicable alternatives for longer term trading of gas that should be considered and if so, what are they?	We have no additional suggestions.
Q5: Are you satisfied with this evaluation of options for longer term trading of gas, and if not, what aspects would you alter and why?	No, long term contracts could refer to industry model contracts for technical and gas delivery terms. Standard contract terms for technical issues of gas management, transport, measurement and allocation should refer to industry standards and protocols (see answer to Q6 below).

Questions	Comments
Q6: Do you agree that there is no case for formalising arrangements for longer term trading of gas to improve transactional efficiency? If not, what alternative do you prefer and why?	While price, pricing structures, term, liability, and quantity are all appropriate for voluntary contracting for long-term contracts, it would be most efficient if the technical matters were dealt with by reference to the current industry standards and protocols. Technical matters could be addressed by reference to the "then current" standard industry contract for short-term trading. This would allow long term contracts to evolve with industry gas delivery standards and protocols.
Q7: Are there any other options that should be considered for short term gas trading, and if so, what are the options?	We have no additional suggestions at this time.
Q8: Are you satisfied with the qualitative assessment of short term trading options? If not, what aspects would you change and why?	The benefits of developing a "Platform bilateral", and its contribution to establishing necessary industry standards and protocols supporting the wholesale gas market, might have been underestimated.
Q9: Do you agree that the standard contract should allow for both types of approaches? If not, what would you prefer and why?	Yes
Q10: Do you agree that the standard contract should not provide for price adjustments for taxes and government charges? If not, what changes would you prefer and why?	Yes, some indication of standard practice would be useful for quickly establishing contracts. However, it should be recognised that parties can vary all commercial terms by ancillary agreement (price, price indices, taxes, government charges, pricing structure, liability).
Q11: Are you satisfied with the proposed approach for addressing s.41 of the Crown Minerals Act in the standard contract? If not, what alternative would you prefer and why?	We support the GIC clarifying the situation with the Ministry of Economic Development to accommodate gas trading arrangements of short duration. Upon clarification, the clause must be revised so that it is not a condition precedent as this may be unworkable.

Questions	Comments
Q12: Do you agree that the standard contract should not provide for any conditions precedent? If not, what alternative would you prefer and why?	No, once executed the contract should be unconditional.
Q13: Do you agree that the standard contract should not make seller liable for gas specification? If not, what alternative would you prefer and why?	While the interconnection agreements between interconnected systems should cover this point sufficiently, it could be helpful for the standard gas contract to specify that seller will be obliged to deliver gas meeting pipeline specification.
Q14: Do you agree that the standard contract should not provide for any priority rights? If not, what alternative would you prefer and why?	Yes.
Q15: Do you agree that the standard contract should set out a broad description of the transport obligations/rights on buyer and seller? If not, what alternative would you prefer and why?	No. The contract should simply provide that Seller is responsible for bringing the gas to the trading point using available open access systems, and Buyer is responsible for taking it away.
Q16: Do you agree that the standard contract should have liability provisions that exclude indirect losses, and that direct losses (in equivalent $/GJ terms) would be capped at the pipeline mismatch/imbalance price? If not, what alternative would you prefer and why?	It would seem to be efficient to have model terms on commercial issues if such can be identified, although these may be revised by agreement provided they do not clash with necessary industry standards and protocols for gas nominations, delivery, measurement and allocation. Direct losses should include any Incentive Fee costs if applicable, a cap at the negative mismatch price may not be adequate.
Q17: Do you agree that the standard contract should have FM provisions based on the principle that for very short term trades FM cannot be invoked unless balancing has been suspended – i.e. curtailment is occurring? If not, what alternative would you prefer and why?	FM should apply. The limitation to only one scenario is too limiting. Perhaps it could be widened to any curtailment imposed by the delivery system according to Code, *force majeure* on transmission systems, imposition of contingency plans, or *force majeure* on major interconnected systems or injection points.

Questions	Comments
Q18: Do you agree with the proposed dispute resolution provisions for the standard contract? If not, what alternative would you prefer and why?	This depends on the structure of Rulings Panel. Such a panel should have access to good wholesale gas market practice from an international perspective.
Q19: Do you agree that the standard contract should provide a standard assignment provision? If not, what alternative would you prefer and why?	Given the contract is short-term, transfer mechanisms may not be necessary unless the contracts themselves are intended to be traded.
Q20: Do you agree that the Gas Industry Co should make the standard contract available for use (once the feedback from this discussion paper has been considered and incorporated)? If not, what alternative path forward would you prefer and why?	The development and availability of a Model Contract will of course be useful to establish and promulgate the standardisation and protocols necessary to support the wholesale market.
Q21: Do you agree that a platform should extend the compliance regime being developed by the Gas Industry Co in order to keep costs to a minimum? If not, what alternative would you prefer and why?	No comment.
Q22: Do you agree that the preferred approach to prudential management is the white-list? If not, what alternative would you prefer and why?	We have no additional suggestions at this time.
Q23: Do you agree that the platform should allow participants to nominate their preferred location for making offers or bids (provided this does not add undue cost to a platform development)? If not, what alternative would you prefer and why?	No, establishing proper trading locations is an important step in defining and establishing a viable trading market. While primary trading between producer and shipper is manageable at an injection point, secondary trading at injection points is likely to be unworkable and not conducive to the cost effective development of scalable gas trading platform. Development costs will be predictable only if specific trading locations are established remote from injection points and delivery points (other than major exchange points between interconnected pipeline systems, i.e. Rotowaro, Frankley Road).

Questions	Comments
Q24: Do you consider the indicative cost ranges for the matching platform to be reasonable? If not, what amendments would you propose and why?	It is too early to tell. Costs should again be estimated after further design work has been completed, and interaction with existing gas delivery systems more clearly defined.
Q25: Do you consider the indicative benefit ranges for the matching platform to be reasonable? If not, what amendments would you propose and why?	At this stage it is difficult to assess, and market response is probably underestimated.
Q26: Do you support the conclusion that it would be reasonable to proceed with development of a matching platform, provided it can be progressed at modest cost? If not, what path forward would you propose and why?	We support some additional design work before proceeding to development. It is not apparent that the ideas are sufficiently mature to maximise the benefit of working with arrangements already developed.
Q27: Do you consider the indicative cost ranges for the trading platform to be reasonable? If not, what amendments would you propose and why?	The platform requires additional design work , we are not clear as to how it works with existing gas delivery mechanisms. Costs could be reasonable if only a few trading points are selected. If multiple trading points are defined, costs could be substantial.
Q28: Do you consider the indicative benefit ranges for the trading platform to be reasonable? If not, what amendments would you propose and why?	At this stage it is difficult to assess, and market response is probably underestimated
Q29: Do you support the conclusion that it would be risky to proceed with development of a trading platform due to uncertainty over net benefits, but that it would be worthwhile to seek to narrow the uncertainties, and in particular to examine the costs and benefits of making the pipeline imbalance pricing mechanisms more responsive and dynamic? If not, what conclusion would you draw and why?	More detailed design work is required. Decisions are needed on defining trading points. Costs will depend on the selection of appropriate trading points, and the extent to which market mechanisms build on gas delivery, allocation standards and protocols already established under MPOC.

Questions	Comments
Q30: Do you consider the quantitative assessment methodology to be reasonable? If not, what amendments would you propose and why?	Quantitative assessment is reasonable, but until design is more detailed, results are highly uncertain.