29 July 2021

Harrison Gibbs
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Lodged via: https://www.aemc.gov.au/contact-us/lodge-submission

Dear Mr Gibbs

RE: Settlement under low operational demand (ERC0327)

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) draft determination on Infigen Energy's 'settlement under low operational demand' rule change proposal (ERC0327).

About Shell Energy in Australia

Shell Energy is Australia's largest dedicated supplier of business electricity. We deliver business energy solutions and innovation across a portfolio of electricity, gas, environmental products and energy productivity for commercial and industrial customers. The second largest electricity provider to commercial and industrial businesses in Australia[1], we offer integrated solutions and market-leading[2] customer satisfaction, built on industry expertise and personalised relationships. We also operate 662 megawatts of gas-fired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and are currently developing the 120 megawatt Gangarri solar energy development in Queensland. Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy.

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General comments

Shell Energy is broadly supportive of the AEMC's final determination for the 'NEM settlement under low, zero and negative demand conditions' rule change (ERC0326). However, we believe the ERC0326 final determination overlooks the low-probability, high impact risk of accruing costs for Reliability and Emergency Reserve Trader (RERT) dispatched for the provision of power system security services at times of low operational demand. We recommend the AEMC uses the ERC0327 process to address this risk. Except for this one concern, we support the AEMC's proposal to make no further changes under ERC0327, as the changes under ERC0326 are sufficient.

Net-positive loads should not pay for all RERT costs in low operational demand periods

The ERC0326 final determination reduces the risk that market participants "with net-positive loads will pay a disproportionate amount of non-energy costs when net regional demand is below 300MW". It does this by

[1] By load, based on Shell Energy analysis of publicly available data.
[2] Utility Market Intelligence (UMI) survey of large commercial and industrial electricity customers of major electricity retailers, including ERM Power (now known as Shell Energy) by independent research company NTF Group in 2011-2020.

requiring "AEMO to substitute average adjusted gross energy (AGE) data from the previous four billing periods into the non-energy cost equations within the NER when net regional demand is less than [300MW]".[3]

We consider this to be a broadly sensible approach. However, we believe that RERT costs should be included in the non-energy costs to which the averaging process applies.

The AEMC's rationale for not including RERT costs was to "minimise implementation costs, because these non-energy costs are highly unlikely to be incurred during minimum demand periods"[4]. While we agree that RERT activation during low-demand periods is unlikely, the probability is non-zero. This is because, when a RERT contract is in place (for example, under the long, medium-notice or multi-year RERT provisions), AEMO may also dispatch RERT to maintain power system security. To our knowledge, this has occurred only occurred once before. However, we consider it to be more likely during low demand periods, which may correspond with less system security. As low-demand periods become more frequent, the likelihood will increase.

Given that RERT costs can be high, the consequence of recovering them from small number of net-positive loads (e.g. C&I consumers) could be substantially negative for the impacted loads. As a result, despite the relatively low (but increasing) likelihood, the overall risk is material and should be addressed.

Finally, we note that the AEMC's intent that:

> *"The [ERC0326] rule provides a temporary low cost solution to address the urgent settlement risks and the inequitable payment risks that can take place when net demand is low, until a more permanent solution is progressed, potentially through* the Integrating energy storage solutions into the NEM (Integrating storage) *rule change."*[5]

We believe that the ERC0326 rule change may be required for longer than originally planned, as the 'integrating storage' rule change may not provide an enduring solution, and may incentivise unintended behaviour from market participants or spot price-facing loads. As a result, we believe the benefits of our proposed suggestion would likely outweigh the implementation costs over the medium term.

Conclusion

Shell Energy recommends that the AEMC uses ERC0327 to include RERT costs in the demand averaging process provided by ERC0326. Outside of this one suggestion, we support the AEMC's draft determination to make no additional changes.

If you would like to discuss this submission further, please contact Matthew Ladewig, Policy Adviser at matthew.ladewig@shellenergy.com.au or on 03 9214 9397.

Yours sincerely

Libby Hawker
GM Regulatory Affairs & Compliance
03 9214 9324 – libby.hawker@shellenergy.com.au

[3] AEMC, *NEM settlement under low, zero and negative demand conditions*, 17 June 2021. Accessed from: https://www.aemc.gov.au/rule-changes/nem-settlement-under-low-zero-and-negative-demand-conditions

[4] AEMC, *Rule determination: National electricity amendment (NEM settlement under low, zero and negative demand conditions) rule 2021*, 17 June 2021, pp 4. Accessed from: https://www.aemc.gov.au/sites/default/files/documents/erc0326_-_nem_settlement_under_low_zero_and_negative_demand_conditions_-_final_determination.pdf

[5] Ibid, pp ii