



26 August 2021

Emily Banks
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

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

Dear Ms Banks

RE: Compensation for market participants affected by intervention events (ERC0284)

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) directions paper on compensation for market participants affected by intervention events (ERC0284).

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 Australia¹, we offer integrated solutions and market-leading² 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 proposed approach set out in the directions paper. The clear intent of the compensation framework is to ensure each market participant retains the same settlement outcome it would have achieved absent market intervention by AEMO. In the case where both the 'dispatch run' and the 'intervention pricing run' achieve the exact same dispatch target outcomes (for both energy and FCAS dispatch), no compensation should be payable.

We believe the proposed changes set out in the directions paper provide useful additional clarity to the existing and draft rules. This submission makes several suggestions to further improve clarity in the final amended rule.

As the directions paper was issued after the draft determination, Shell Energy considers it would have been helpful if the AEMC had also included the proposed amendments to the draft rules in marked up form.

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.



Question 1: Options for calculating compensation

Shell Energy supports Option 2, noting that transparency could be improved with respect to AEMO's 'scaling' process. Our reasoning is as follows.

We agree that where a generating unit or scheduled load's dispatch deviates from its dispatch target due to the provision of dispatched FCAS, the compensation calculation should take the level of dispatched FCAS into account and ensure that over-compensation does not occur.

We support the proposed addition to Clause 3.12.2 to clarify that, where both the 'dispatch run' and the 'intervention pricing run' achieve the exact same dispatch target outcomes (for both energy and FCAS), no compensation or return of settlement funds should be payable.

This would limit AEMO's calculation of compensation to only those generating units or scheduled loads where the dispatch target for energy and/or FCAS is different between the 'dispatch run' and the 'intervention pricing run'. This would provide the added benefit that where a generating unit's or scheduled load's dispatch deviates due to the provision of uncompensated mandatory primary frequency response, compensation or return of settlement funds would not be payable. This would match the settlement outcomes that occurs absent an AEMO market intervention event.

Where actual dispatch targets for energy and/or FCAS are different between the 'dispatch run' and the 'intervention pricing run', we support compensation being calculated in accordance with Option 2. However, our one concern with Option 2 is that there is a lack of transparency and consultation associated with the 'scaling' process to be implemented by AEMO. We recommend the final rule be strengthened in this area.

Question 2: Clarifying the objective of the compensation framework

We agree with AEMO that the draft determination's proposed wording of 3.12.2(a)(2) (which outlined a two-way compensation approach for market customers) was inconsistent with the formula in 3.12.2(d) (which outlines a one-way compensation approach for market customers). However, we also agree with the AEMC that "specifying the intent of the compensation framework for both affected participants and scheduled loads remains important". This is consistent with our overarching support for 'plain English' clauses in the National Electricity Rules (NER) that clarify intent and remove ambiguity.

We therefore support the AEMC's proposed approach of adding a new, appropriately worded paragraph stating the framework's objective.

Question 3: Characterisation of bi-directional units

The AEMC's draft determination for the 'integrating storage' rule change (ERC0280) proposes to use a single DUID for bi-directional units. If this occurs, and if the compensation framework continues to be based on whether a participant is classified as an affected participant or scheduled load, then we agree it would be useful for the NER to clarify how bi-directional units will be treated in different circumstances.

The AEMC has suggested that the clarification should stipulate that:

"... where a unit is capable of operating as both a scheduled generator and a scheduled load, the choice of applicable compensation framework will be based on the MW target issued to the unit by NEMDE in a given intervention price trading interval, notwithstanding that unit's actual performance over the interval."³

³ AEMC, *Directions paper, National electricity amendment (compensation for market participants affected by intervention events) rule*, 15 July 2021, p28



However, the AEMC provides no guidance if the applicable MW target is to be based on the 'dispatch run' or the 'intervention run'.

In the case that a bi-directional unit's dispatch target is 0 MW in an intervention interval, the AEMC suggests that the compensation framework should be "based on the target in the intervention pricing run... as it would focus on what the participant would have been doing but for the intervention"⁴. We support the AEMC's view because it is consistent with the overarching principle, 'that compensation must be based on what the participant would have been settled at absent AEMO market intervention'.

However, we note that the previous paragraph was for a specific case (a dispatch target of 0 MW in the dispatch run). We are concerned that the discussion in Section 5 of the directions paper does not result in the correct compensation or settlement refund under all circumstances. In our view, there are scenarios where the treatment of a bi-directional unit (with respect to compensation) should be based on a combination of:

- 'dispatch run' dispatch targets
- intervention run' dispatch targets
- actual metered output, exclusive of calculated FCAS response.

As such, we believe that the NER should not attempt to address all conceivable scenarios. Instead, the NER should stipulate that AEMO, when calculating compensation, must adhere to the principle, "that compensation must be based on what the participant would have been settled at, absent AEMO market intervention".

The following examples illustrate our views on how it may be appropriate to use different combinations of dispatch targets and/or actual metered outputs in different scenarios to categorise bi-directional units for the purpose of compensation. These are for illustrative purposes only and are not intended to capture all the outcomes which could arise at dispatch.

1. Assume the intervention run dispatch target ≤ 0 MW (i.e. the bi-directional unit would have been charging), and the dispatch run dispatch target > 0 MW (generating). In this case, the unit would be required to refund settlement revenue as an affected participant (based on actual output) with a floor of 0 MW.⁵
2. Assume the intervention run dispatch target ≥ 0 MW, and the dispatch run dispatch target < 0 MW. In this case, the bi-directional unit should be compensated as both a scheduled load and an affected participant for the purpose of compensation.
 - o The unit should be treated as scheduled load (that was forced to consume above 0 MW) based on its actual consumption, and compensated accordingly.
 - o The unit should also be treated as an affected participant (that was forced to entirely curtail its generation) based on its intervention run dispatch target.
3. Assume the intervention run dispatch target ≥ 0 MW (i.e. the bi-directional unit would have been generating), and the dispatch run dispatch target = 0 MW. In this case, the unit should be compensated as an affected participant.
4. Assume the intervention run dispatch target ≤ 0 MW (i.e. the bi-directional unit would have been charging), and the dispatch run dispatch target = 0 MW. In this case, there should be no action.

⁴ Ibid

⁵ Note that this assumes the intervention run price is positive. If it was negative, then there would be a situation analogous to the next scenario in this list.



Conclusion

The directions paper has thoughtfully considered and set out workable solutions and additional clarity in the proposed draft rules to a range of complex issues raised in submission to the draft determination. In general Shell Energy supports the additional clarity for the rules and many of the proposed solutions. Overall, Shell Energy supports an overarching principle or objective that the calculation of compensation or refund of over-settlement payments is to ensure the market participant retains the same market outcome in terms of settlement, absent market intervention by AEMO.

For the future, in considering directions papers issued following a draft determination, we consider it would be beneficial for the Commission to also include the proposed amendments to the draft rules in marked up form.

If you would like to discuss this submission further, please contact Ron Logan, Senior Markets Adviser at ron.logan@shellenergy.com.au or on 0427 002 956.

Yours sincerely

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