



25 November 2021

Lisa Shrimpton
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Dear Ms Shrimpton

RE: Extension of time and reduction in scope of the 2022 reliability standard and settings review rule change

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) extension of time and reduction in scope of the 2022 reliability standard and settings review rule change.

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 gas, electricity, 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

As a market customer with generation assets, Shell Energy has a keen interest in the reliability standard and settings. We have also engaged extensively with the Energy Security Board (ESB) on the concept of a physical Retailer Reliability Obligation (RRO) or capacity mechanism as part of its post-2025 review of the National Electricity Market (NEM). It certainly seems logical to consider the reliability standard and settings alongside the design of a proposed capacity mechanism for the NEM.

In assessing this rule change, we consider that it effectively has two parts:

- 1) An extension of time for the reliability standard and settings review
- 2) Transferring the consideration of the reliability settings to the ESB

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.



We wish to make it clear that if the rule change were for an extension alone, we would be inclined to agree. Shell Energy sees the change in scope, or more accurately, the shift of the review of the reliability settings from the Reliability Panel to the ESB as an issue that warrants careful and detailed consideration.

The reliability standard and settings are important metrics and measures to incentivise the necessary investment to meet a level of reliability determined as being in the long-term interests of consumers. Even as a one-off change, as per the rule change request, Shell Energy considers there are a range of issues in this rule change proposal that should be given fuller consideration as part of a full rule change consultation.

Firstly, the reliability standard and settings are designed to operate in tandem. The settings should represent the necessary values that allow for the standard to be met. Separating the two issues risks creating a situation where the settings do not create the proper incentives to allow for sufficient supply to meet the standard. Alternatively, the settings could over-incentivise supply and create a scenario where consumers pay too much for energy. This risk will be heightened under a capacity mechanism where generators (and potentially demand response) are paid for the capacity they make available rather than the energy they supply into the grid.

While we acknowledge that under this proposed rule change both the standard and settings would be set before the beginning of the 1 July 2024 period, the fact that they would be considered by different organisations – the Reliability Panel considering the standard and the ESB considering the settings – means that they will not necessarily work together. We have already seen this via the introduction of the Interim Reliability Measure which tightened the reliability standard from 0.002 per cent unserved energy (USE) to 0.0006 per cent but ignored the reliability settings.

The Reliability Panel is a specialist body tasked specifically to review, monitor and report on security, safety and reliability in the NEM. Importantly, the Panel has a mix of participants representing different stakeholders including large users, medium and small end use customers, retailers, generators, networks, market customers, the AEMC and the Australian Energy Market Operator (AEMO). We consider that this diverse make up allows it to balance competing viewpoints in a way that the ESB alone may not be able to do. The ESB does not have the same diversity of views, particularly now that the independent Chair and Deputy Chair have left and the heads of the AEMC, AEMO and Australian Energy Regulator (AER) make up the ESB. As we see it, the ESB's membership faces very different pressures and drivers to those of the Reliability Panel whose members, and the areas of the market they represent, are directly exposed to the impacts of the reliability standard and settings.

Furthermore, we see potential risks to the contract markets in delaying the timing of release of any proposed change to the reliability standard and/or settings. Ordinarily, a rule change to set a new reliability standard and settings would be made around 18 months before the date from which the new standard and settings would apply. Under the rule change proposal this would be shortened to around 12 months. A material change to the reliability settings is likely to have an impact on contract markets, so the longer the time between the settings being determined and the effective start date, the more time the contract market has to price in these new settings. Shortening the timeframe creates a risk that the uncertainty of the settings will be priced into markets, leading to higher prices for consumers. Although most contracts are traded within 12 months of demand occurring, a portion is traded more than 12 months out. Any delay to the review of the settings therefore increases the risk of an impact on the contracts market. Shell Energy considers this should inform the AEMC's deliberations on this rule change.

We agree with the AEMC's stated position that the merits of a capacity market are out of scope of this rule change. Irrespective of the merits of a capacity mechanism, there could be a case for the Reliability Panel to establish two sets of reliability settings: one for the existing market design and another to apply if a capacity mechanism is implemented. In this case, an extension to the timeframe for the Reliability Panel's standard and settings review would make sense given the extension of the scope of the review. The exact design of a capacity mechanism, or physical RRO is not a crucial factor. Rather, it is important to consider the concept that



generators are receiving payments for available capacity that can be used to provide an alternative suite of reliability settings.

The rule change request notes that if the rule change is made, the ESB will consider several different scenarios for reliability settings:

1. What settings should be in place with a capacity mechanism
2. What settings should be in place in the event Energy Ministers/ National Cabinet does not consider that a capacity mechanism is required, and
3. If Energy Ministers/ National Cabinet agrees to the implementation of a proposed capacity mechanism, what settings should be in place for the interim period taking into account the impact of the timing of any changes on the contract market, and the potential to place a freeze on the settings before a capacity market is implemented.

Shell Energy believes that the Reliability Panel could undertake these same assessments alongside their existing work on the reliability standard. We contend that it would be preferable for the Reliability Panel to consider these prospects together rather than splitting the review between the Reliability Panel and the ESB. A 12-month extension to the timeframes for the entire review, along with an extension to the current reliability settings and standards would seem to adequately address the ESB's concerns. It would allow for the Reliability Panel to review both the reliability settings and standards at the same time, with added detail on any proposed capacity mechanism. Finally, it would limit any negative impact on the contracts markets.

Conclusion

Shell Energy considers that a delay to the reliability standards and settings review is warranted in order to allow the Reliability Panel to consider the ESB's design of a capacity mechanism. A 12-month delay along with a 12-month extension to the existing settings and standards would be appropriate from our perspective.

However, the Reliability Panel should be the body to review both the standard and settings in tandem. We strongly disagree with the rule change proponent's model of the Reliability Panel assessing the standard alone, with the ESB determining the settings separately. The Reliability Panel has a broad cross-section of members including the AEMC and AEMO, whose members, and the areas of the market they represent, are directly affected by changes to the reliability standard. The ESB's membership does not have that same diversity of perspectives and should not be tasked with reviewing the reliability settings.

For further information regarding this submission, please contact Ben Pryor (0437 305 547 or ben.pryor@shellenergy.com.au).

Yours sincerely

[signed]

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