



13 October 2022

Submitted electronically

RE: ERC0347 Amending the Administered Price Cap - Draft Determination

About Shell Energy in Australia

Shell Energy is Shell's renewables and energy solutions business in Australia, helping its customers to decarbonise and reduce their environmental footprint.

Shell Energy delivers business energy solutions and innovation across a portfolio of electricity, gas, environmental products and energy productivity for commercial and industrial customers, while our residential energy retailing business Powershop, acquired in 2022, serves more than 185,000 households and small business customers in Australia.

As the second largest electricity provider to commercial and industrial businesses in Australia¹, Shell Energy offers integrated solutions and market-leading² customer satisfaction, built on industry expertise and personalised relationships. The company's generation assets include 662 megawatts of gasfired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and the 120 megawatt Gangarri solar energy development in Queensland.

Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy, while Powershop Australia Pty Ltd trades as Powershop. Further information about Shell Energy and our operations can be found on our website [here](#).

General Comments

Shell Energy welcomes the opportunity to provide feedback on the administered price cap (APC) rule change draft determination. We continue to support the view that to avoid a repeat of the June 2022 NEM outcomes, and to ensure that the APC continues to fulfil its function to protect consumers, the implementation of the proposed changes is necessary to maintain a dispatchable market in the NEM as well as to ensure secure operation of the power system across a wider range of circumstances.

A key issue is that the APC acts as a cap on price outcomes and is not a fixed price that would prevail regardless of demand and supply outcomes. In this respect, the proposed change to the APC would not necessarily affect market outcomes in all trading intervals. It would however promote efficient dispatch outcomes where the marginal generating units respond as required to demand signals without the need for market intervention by AEMO. This should be reflected in the Commission's assessment of the impact on cap values as it notes that its "estimation is conservative in that not all \$300/MWh prices at the APC would scale directly to the higher APC level." Whilst we support the Commission's view in this area, Shell Energy believes a more detailed assessment of the potential impact on cap prices including an analysis to quantify the number of trading intervals that could reasonably be expected to scale to the new cap.

¹By load, based on Shell Energy analysis of publicly available data.

²Utility 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 2011-2021.

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Question 1 - The appropriate level of the APC

Shell Energy maintains its view that maximising the number of dispatchable generating units with short run marginal costs (SRMC) below the APC would ensure that plant operators are able to respond appropriately to price signals and limit the need for AEMO directions. We therefore support the analysis undertaken by the AEMC in its project initiation consultation paper which shows that the proposed temporary APC level would leave a large portion of dispatchable capacity in the NEM reliant on compensation mechanisms for cost recovery. This is unlikely to resolve the problem identified in the rule change request and could leave the market reliant on intervention mechanisms. Shell Energy's view is that targeting an APC level above the SRMC of 95% of generating units in the NEM would ensure that the market is dispatched efficiently and that consumers are protected from onerous compensation claims.

Question 2 - Cumulative Price Threshold (CPT)

With specific regard to Question 2.2, Shell Energy supports clarifying the price to be used in the CPT calculation in the rules as part of this rule change process to ensure that interregional scaling effects for regions which are not subject to a declared administered pricing period are properly considered. The current rules - subclause 3.14.2.(c)(1) - are specific with regards to a region where an administered pricing period (APP) has been declared. However, we consider that the rules are ambiguous with regards to the price to be used in the CPT calculation when price scaling in accordance with subclause 3.14.2(e)(2) is imposed on a region(s) which is not subject to a declared APP but with interconnector flows towards a region where an APP has been declared. Currently, AEMO use the Region Original Price (ROP) and not the Regional Reference Price (RRP) to calculate the CPT when a region is subject to APC scaling due to another region being in an APP. This can result in an APP being declared in a region where the sum of the cumulative price outcomes are well below the CPT in the scaled region.

We believe that the current application of NEM rule 3.14.2(c)(1) to a region where an APP has not been declared results in an overestimation of the settlement impact on a region that is being scaled because another region is subject to an APP. As such it serves to mute the economic signal as set out by the reliability settings for units to make themselves available to be dispatched and the investment signal provided by the reliability settings. Looking at the events of 13 June 2022, for the NSW, Vic and SA regions, these regions were subject to significant APC scaling for settlement even though their respective CPT values were below the CPT. Due to the use of the ROP for these regions in the cumulative price calculation, these regions saw declaration of an APP where the sum of cumulative regional reference prices remained well below the CPT. As such, the markets in these regions did not receive the full value of the CPT prior to an APP being declared in these regions.

In the case of the NSW region, the APP was activated on 13 June where from a settlement value received perspective, the CPT value based on settlement prices received was \$355,300 below the CPT value in the rules due to the application of the ROP in the cumulative price calculation.

Shell Energy's analysis indicates that this issue may have had important repercussions for market outcomes in June 2022. Our analysis shows that without the application of subclause 3.14.2.(c)(1) to the cumulative price calculation in the regions where an APP had not been declared (ie NSW, VIC and SA), it is unclear if any of these regions would have exceeded the CPT. This analysis was conducted using RRP outcomes instead of the ROP in the lead up to and during the 13 June to 24 June period. Taking this approach to calculating the CPT may have prevented the need for the subsequent issue of NER clause 4.8.9 Directions to generators and the suspension of markets in these regions.

Whilst Shell Energy does not support a change with regards to the scaling of the regional reference price in accordance with subclause 3.12.2(e)(2), we consider that the clarity of the rules would be improved by removing the ambiguity in the rules as to the price to be used by AEMO in the cumulative price calculation for a region subject to scaling. The following suggested new clause 3.14.2(e)(3), would in our view clarify that for the CPT calculation in a region subject to scaling due to another region being subject to an APP, the RRP and not the ROP is to be used. This would maintain the integrity of the reliability settings with regards to the CPT calculation.

Proposed clause:



(3) Where the *spot price* at a *region* is subject to the application of Clause 3.14.2(e)(2) in a *region* where an *administered pricing period* has not been declared, the price used for the calculation of the *cumulative price threshold* shall be the *regional reference price* and not the price calculated as if clause 3.14.2(c)(1) did not apply.

For any questions regarding this submission please contact Peter Wormald (peter.wormald@shellenergy.com.au).

Yours sincerely,

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