17 April 2025

Australian Energy Market Commission
Level 15
60 Castlereagh Street
Sydney NSW 2000

RE: GRC0076 - ECGS Reliability Standard and Associated Settings

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 households and small business customers in Australia.

As the one of the largest electricity providers to commercial and industrial businesses in Australia[1], Shell Energy offers integrated solutions and market-leading[2] customer satisfaction, built on industry expertise and personalised service. The company's generation assets include 662 megawatts of gas-fired 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 also operates the 60MW Riverina Storage System 1 in NSW, as well as the 200MW Rangebank Storage System and 370MW Koorangie Storage System both located in Victoria.

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.

Summary

Shell Energy welcomes the opportunity to provide feedback to the Australian Energy Market Commission's consultation on the East Coast Gas System Reliability Standard and Associated Settings.

Key points made in this submission include:

- The introduction of a gas reliability standard is a positive development if it leads to harmonisation of price settings across gas markets and greater compatibility between gas and electricity markets.
- The proposed form of the standard, an unserved gas measure coupled with a peak day deliverability measure, should be rejected in favour of a standalone unserved gas standard. The NEM reliability panel has undertaken detailed review and analysis in the electricity market that shows a dual standard approach is unnecessary for capturing tail-risk events and is not in the long term interests of consumers.
- Shell Energy supports an interim arrangement for governing the reliability standard and settings but recommends that the final governance arrangement should mirror the NEM Reliability Panel approach

[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 2011-2021.

to maximise transparency and to ensure that a wide range of stakeholders are represented in determining the gas market price settings.

General Comments

Shell Energy agrees with the rule change proponent regarding the need for the rule change. The introduction of a gas reliability standard is an opportunity to enhance investment signals and remove distortions between markets across the east coast energy supply system. The current dislocations between the STTM and DWGM market price settings have caused inefficient market outcomes during high demand situations in the past and will likely do so in the future if not remedied. A well designed reliability standard with robust governance should result in harmonised market price settings for east coast gas markets which would remove distorted incentives to market participants and ensure that gas is available to consumers who need it most.

Further, we support the view that a reliability standard can set the framework to provide clear guidance to AEMO in how it identifies supply sufficiency threats and exercises its gas market intervention powers. Ensuring that a clear and objective approach is taken towards issuing threat notices and exercising market intervention powers is critical to participant confidence in future gas market outcomes and is fundamental to efficient investment outcomes and operational behaviour.

Comments on the Proposed Reliability Standard

Form of the Standard

Shell Energy does not support the proposed form of the reliability standard. A dual reliability standard is unnecessary and should be rejected in favour of a standalone unserved gas reliability standard. The NEM Reliability Panel has considered the form of the reliability standard in the electricity market a number of times, undertaking detailed analysis and extensive consultation. It has consistently found that a dual standard does not provide any benefit to consumers and does not have support from stakeholders[Error! Bookmark not defined.][3].

The principles that apply to an electricity reliability standard also apply to gas. The reliability standard is applied in the planning timeframe and as such needs to consider not just the potential reliability outcomes, but the probability of the outcomes occurring. The probabilistic unserved gas approach is the appropriate tool to pair with scenario modelling to understand the level of expected unserved gas that might occur during any period over the forecasting horizon. It is also the most appropriate way to consider the level of investment in additional supply or changes to storage or demand that can reduce expected unserved gas to the level set by the standard. This is critical for understanding the quantity and costs of additional investment and for subsequently setting the most efficient market price limits and ensuring that efficient operations and investment are undertaken for the long term benefit of consumers.

The addition of a daily deliverability standard provides a deterministic requirement that is more stringent than the unserved gas measure. To meet a daily deliverability standard in all modelling scenarios would require substantially more additional supply. This would lead to much higher gas market price limits to ensure that future modelled investment could attract a financial return. Higher gas price limits would, in turn, increase costs to consumers and drive over-investment in gas supply infrastructure. Shell Energy strongly recommends that these

[3] Review of the Form of the Reliability Standard and Administered Price Cap - Final Report, Reliability Panel, 27 June 2024

inefficient outcomes be avoided and encourages the Commission to take into consideration the large body of work undertaken by the NEM reliability panel in examining the most appropriate form of a reliability standard.

Level of the Standard

Shell Energy supports the proposal to set the level of the standard with reference to a value of consumer gas reliability. This approach anchors the standard in the preferences of consumers and facilitates change over time as consumer preferences and technologies change.

Scope of the Standard

Shell Energy supports the proposal for the standard to apply across all ECGS jurisdictions. This is critical to ensuring that gas market price settings are consistent and limiting distortions that can drive inefficient market behaviour and investments.

Governance

Shell Energy does not fully support the proposed governance arrangements for the gas reliability standard. Instead of the AEMC being directly responsible for periodically reviewing the reliability standard and market price settings, the Rules should implement a Gas Reliability Panel modelled on the NEM Reliability Panel. This body would ensure that stakeholders are strongly represented at a technical level when these critical market variables are considered and determined. The transparency and engagement of the NEM reliability panel is a strength of the NEM and we consider that its benefits should be realised in the gas markets to ensure the long term interests of consumers are protected.

The proposed roles for the AER and AEMO are appropriate and analogous to their respective electricity market role which should ensure sufficient expertise are available within the respective bodies. We recommend that the AER be required to follow a consultative process to ensure that stakeholders have sufficient transparency of and opportunity to contribute to the development of the guideline.

Experience with the best practice forecasting guidelines in the NEM suggests that the guideline incorporate a feedback loop requirement for the forecasting process. AEMO conducts significant consultation on forecasts and models and receives a lot of stakeholder input. Best practice governance of this process should require tracking of stakeholder inputs and subsequent reporting by AEMO as to decisions made regarding how and why stakeholder input was incorporated or not incorporated into the forecast models. This tracking and reporting process would enable the AER to exercise an oversight role to ensure that the process is robust on an ongoing basis and that improvements continue to be made in line with stakeholder expectations to the benefit of consumers.

Interim Reliability Standard

Shell Energy supports the proposal for the AEMC to undertake setting an interim reliability standard given the time required for the AER. We believe that the proponent has identified appropriate requirements that the AEMC should regard when setting an interim standard.

We note that setting an appropriate interim standard will be challenging and the proposed approaches each have their merits and drawbacks. Our view is that the interim standard should be subject to robust consultation with a wide range of stakeholders. We also note that some boundaries currently should be considered to exist around the level of the standard and the market price settings. In particular, a standard that results in market price settings below those currently in place is unlikely to facilitate efficient investment given the projected supply shortfalls and market interventions which prompted this rule change and the stage 1 reforms. Similarly, the

electricity market price cap and cumulative price thresholds could be considered an upper bound in gas-equivalent ($/GJ instead of $/MWh) terms.

Objective threat signalling mechanism and GSAR conferences

Shell Energy considers that a more deterministic, pre-determined framework would be appropriate for determining system threat levels in the operational timeframe. The consultation paper proposes an approach that would align with the electricity market LOR framework which considers predefined reserve levels against forecast outcomes in ST and MTPASA. An approach similar to this in the gas market would be appropriate and would help provide AEMO operations staff and market participants with clear guidance about when interventions may be taken.

The development of the appropriate LOR framework and the levels that apply in the gas markets should be subject to broad consultation with industry experts to ensure that the appropriate protections are in place to balance infrastructure and consumer protections. It will also be critical that the LOR framework be informed by the reliability standard and the value of gas reliability to ensure that intervention is balanced against consumer cost considerations. Periodic review of LOR levels may be necessary to ensure that market outcomes align with the reliability standard over a period of time.

GSOO and VGPR alignment with the RSA framework

We note that the rule change proposes to include a reliability assessment in the GSOO and VGPR, which Shell Energy supports. Along with the requirement to report "the expected size, timing, duration and location of the forecast breach of the reliability standard" we suggest that it is important to report the probability of the breach occurring. This is a critical aspect of the probabilistic assessment of reliability which is central to an unserved gas standard. AEMO's assessment should present the percentage of scenarios or under which probability of exceedance conditions the unserved gas standard was breached for any particular time period in the forecast horizon. Reporting the probability of shortfall events occurring would enable more informed decision making by market participants, consumers, and policy makers.

Shell Energy welcomes further engagement on this topic. If you have any questions or would like further details relating to this submission, please contact Peter Wormald at peter.wormald@shellenergy.com.au.

Yours sincerely,

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