17 July 2025

RE: REL0094 - 2026 Reliability Standard and Settings Review (Issues Paper)

Shell Energy welcomes the opportunity to provide feedback to the reliability panel's consultation on the 2026 Reliability Standard and Settings Review.

About Shell Energy in Australia

Shell Energy is an energy solutions business and renewables and battery energy storage system developer 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, innovation across a portfolio of electricity, gas, environmental products and energy productivity. Our residential energy retailing business Powershop, acquired in 2022, serves households and small business customers in Australia.

Our 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.

General Comments

Shell Energy welcomes the Panel's intention not to re-examine the form of the reliability standard. We support the conclusion that the 2024 examination found the unserved energy (USE) measure appropriately captures the full range of reliability risks faced by the electricity supply system even as it transitions to be more dependent on intermittent renewable generation.

We note the Panel's discussion of jurisdictional policies and the ongoing NEM Review process and their interaction with the reliability standard and price settings. Shell Energy considers that the reliability standard and market price settings process and framework remain appropriate in the context of these policies and potential changes. Existing policies have been shaped around the market as it currently operates and therefore investment has been undertaken through these policies on the expectation that the existing reliability framework will continue. This supports little change to the current approach since major shifts in the market price settings could discourage future engagement in these investment focused policies. The current direction of the NEM Review also supports the continuation of the current approach. If investment is to be incentivised through contracting arrangements, a robust market reliability settings process is necessary to ensure that investors can determine the value of contracts provided through the process. Further, the intention of the NEM Review panel was to provide a framework for contracts to investors beyond the current market liquidity timeframe. The period covered by this new potential framework appears unlikely to begin within the period under consideration by this review of the reliability standard and settings.

Market Price Cap

Shell Energy supports the current approach to determining the level of the market price cap (MPC) as it balances risk with a technology neutral price signal that encourages efficient market operation and investment. Determining the lowest level below the value of customer reliability that will result in the reliability standard being met provides a robust analytical basis for determining the market price cap.

Shell Energy Operations Pty Ltd, Level 30, 275 George Street, Brisbane Qld 4000. GPO Box 7152, Brisbane Qld 4001.
ABN 28 122 259 223 Phone +61 7 3020 5100 Fax +61 7 3220 6110 shellenergy.com.au

We note the comments in the Issues Paper regarding the rapid uptake of consumer energy resources (CER) and agree that the impact of this equipment should be considered carefully. It will be important to appropriately define and consider CER that is controllable and exposed to the full market price signal risk. The amount of this kind of resource is currently well below the total amount of installed CER and is likely to remain so during the period under consideration in this review. The Panel should identify the extent to which the market price signals impact this resource and account for this in its modelling. Shell Energy's view is that the MPC approach should not be changed to encourage investment in these newer technology types given the very different risk profiles between behind the meter resources and spot market dispatchable resources.

We also note the comments in the Paper regarding the effect of jurisdictional support mechanisms for new resource investment. In considering these it is critical the Panel carefully consider the resources supported by these mechanisms and their ability to support reliability outcomes at times of reliability scarcity.

Cumulative Price Threshold

Shell Energy supports the current technology neutral approach to the cumulative price threshold (CPT). We agree with comments in the Issues Paper that the CPT and MPC are inherently linked and must remain co-optimised to ensure that investment signals are not distorted.

We do not support separate CPT triggers for Energy and FCAS. Energy and FCAS when supplied from the grid both use the same capacity and fuel (stored energy) resource. Having different CPT triggers could result in a shortage in either Energy or FCAS depending on which service is able to supply the highest margin return. We consider that the current approach remains the most appropriate: a CPT in Energy should continue to trigger the CPT in FCAS markets but CPT in FCAS should not trigger CPT in Energy.

Shell Energy considers the primary purpose of the CPT is to protect the market as a whole from cascading financial failure of market participants. As such we question the relevance of comments in the Issues Paper that indicate the CPT's function is to protect all individual market participants from financial failure risk. The CPT should continue to expose market participants to sufficient risk to incentivise prudent hedging behaviour. An alternative approach that seeks to limit risk to individual participants may inadvertently reduce the incentive for participants to hedge increasing overall financial risks and could lead to less efficient market outcomes.

Market Floor Price

Shell Energy supports keeping the market floor price at the current level and does not see the need to introduce a cumulative price threshold and administered price limit for low prices. We consider that the primary purpose of the floor price is to provide an operational signal to discourage generation during times of over-supply. The current level of the MFP provides this signal. The observations of race-to-the-floor bidding from intermittent renewable generators is, in our view, limited, and associated with periods of network congestion which are likely to be transitory. In general, these instances of race to the floor bidding by some generators don't fully align with regional MFP settlement outcomes. As markets have matured it has become more common for power purchase agreements to exclude periods of negative prices in contract settlement outcomes. Shell Energy observes that the Panel has noted this decline in periods of very low RRP outcomes in section 2.3 of the paper. These arrangements are key to improving the efficiency of pricing outcomes rather than adjusting the MFP.

Our experience indicates that most plant with physical minimum load constraints hedge to this level and as a result are not economically exposed to negative prices. All other plant can limit exposure by controlling generation at times of low prices. These two factors limit the need to protect participants from sustained periods at the market floor price using a CPT approach.

When considering the extent to which the MFP incentivises investment, particularly in behind the meter or demand resources, we recommend the Panel carefully consider the extent to which these resources are scheduled and exposed to the full spot price signal. Without this exposure we consider that the MFP provides a

very inefficient signal to new investment in these resources and the focus should remain on its role in providing operational incentives to scheduled spot-exposed resources.

Administered Price Cap

Shell Energy supports a change to link the administered price cap level to the market price cap level. Historically, the Reliability Panel and the AEMC have taken a technology linked approach in setting the APC at approximately the fuel costs for gas powered generators. Given the forecast increases in supply provision from energy storage resources in the future NEM, Shell Energy questions if this historical approach remains valid. Explicitly linking the APC to the MPC recognises the fact that the APC is in effect a discounted MPC that applies following a period of high spot price volatility to mitigate systemic market failure risk. In our view, the APC is a pricing risk management tool which should act to manage risk for prudent market participants, and it should not be based solely on ensuring cost recovery for a particular supply side resource which may then act to discourage other participants from continued market participation. The key question would be to determine the appropriate level of discount applied to the MPC in setting the APC, to adequately manage market price risk at times of market stress such that incentives are retained for efficient market dispatch offers by all participants. Our view is that setting the APC to around 5% of the MPC and adjusting in line with the MPC may be appropriate.

A key consideration in setting the APC is whether it sufficiently incentivises market based (voluntary) production from all plant during administered price periods (APP) without the need for market intervention by AEMO. The increase in storage assets and their increasing role in supporting reliability means that the APC level needs to be above the marginal cost for gas plant plus an additional amount to compensate for storage cycling losses. The historical view that open cycle gas plant would be required to operate at times of tight supply/demand balance is likely still going to be true for dispatchable (non-storage) plant. However, during an APP event, storage assets will likely be required to charge at a price set by gas plant to ensure the required available capacity during the reliability scarcity periods. To recover its costs a storage based resource will then need to dispatch at a higher price inclusive of round-trip losses. This will require the APC to be set at a price above the marginal costs of open cycle gas plant. We consider that a single APC linked to the MPC, rather than the fuel cost of thermal generation resources, could accommodate this dynamic with careful consideration of the appropriate price level.

Another key issue, previously considered by the Panel is the relationship between the APC and cap contracts. The Panel considered that there should be a fixed APC to allow a relationship to exist. However, this fosters an outcome where if there is alignment between the APC and the strike price of caps the incentive for some generators to continue to generate during an APP is removed. This is because there is no risk for the generator to cover when fully hedged using cap contracts. Linking the APC to the MPC would help to delink cap strike prices and ensure that operational incentives remain in place during APP.

Shell Energy's view is that the APC does not, on its own, provide an investment signal. The Panel should consider the CPT, MPC and APC collectively when determining the appropriateness of investment incentives.

Modelling

Shell Energy supports the proposed approach to modelling. We agree with the proposed methodology for determining the efficient level of the reliability standard based on consumer preference as expressed through the value of customer reliability. This methodology should result in the consideration of both tightening or relaxing the value of the reliability standard. We note that once the model is set up the approach is to "modify this model by removing firm capacity such that it produces a level of [unserved energy (USE)] that is below the reliability standard (i.e. more USE than the existing standard)"[1]. Shell Energy recommends that the removal of

[1] Page 45

firm schedulable capacity should be only sufficient to result in an exceedance of the standard, not to create large amounts of USE which has been the case in some historical modelling. The value of modelling large USE amounts is limited, consumes resources and distorts stakeholder views of likely reliability outcomes.

We note that the choice of marginal new entrant technology types is a critical factor in determining the MPC and CPT. When modelling the new plant it will be crucial to assess any energy constraints and their timing relative to the reliability shortfall that is being addressed. This is because new entrant storage will rely on energy producing assets to produce into a reliability shortfall event. If insufficient energy is available prior to refill the storage new entrant prior to the reliability event it will not contribute to mitigating unserved energy.

The intention to use AEMO demand forecasts and expectations for uptake of EVs and CER is appropriate since this is the most readily available data set. However, we recommend that additional sources should be interrogated given how critical the demand shape is to this kind of modelling and how uncertain the future is regarding technology developments. The Panel should assess the materiality of differences between an alternative demand forecast to understand whether the impact on market price settings could be large before progressing with just one forecast.

Shell Energy would welcome the opportunity to discuss aspects of the modelling in more thorough detail than that which is possible to set out in a submission.

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,

Libby Hawker
General Manager – Regulatory Affairs and Compliance