



10 July 2025

## RE: ERC0386 - Directions Paper – Inter-regional settlements residue arrangements for transmission loops

Shell Energy welcomes the opportunity to provide feedback to the Directions Paper on Inter-regional settlements residue arrangements for transmission loops.

### 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 second largest electricity provider to commercial and industrial businesses in Australia<sup>1</sup>, Shell Energy offers integrated solutions and market-leading<sup>2</sup> customer satisfaction, built on industry expertise and personalised relationships. 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 and the 200MW Rangebank Storage System in VIC.

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](#).

### Key Points

- Shell Energy is strongly opposed to the proposed approach to netting of positive and negative IRSRs as it will add costs to consumers through higher interregional hedging risk and a reduction in revenue received from the settlement residue distribution unit auctions. Reallocating unhedged negative settlement residue risk to market participants is unlikely to lower costs.
- Increased interregional hedging risks will reduce contract availability in the three affected regions and add to the RRO cost burden for retailers and ultimately consumers.
- We provide some suggestions on the draft rule to minimise inter-regional cross-subsidies and improve consistency regarding time intervals used for calculations.

### Increased Costs to Consumers

Shell Energy considers that the decision to implement Project Energy Connect (PEC) as part of a transmission loop in the NEM is the reason that consumers are exposed to larger unhedged negative settlement residues. This concern regarding settlement residues, highlighted by the Commission as the primary reason for applying a netting-off approach to SRAs, was identified by stakeholders during AEMO's consultation<sup>3</sup> on how the

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<sup>1</sup>By load, based on Shell Energy analysis of publicly available data.

<sup>2</sup>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.

<sup>3</sup> [AEMO | Project Energy Connect Market Integration Papers](#)

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interconnector should be implemented in the NEM. At the time, stakeholder arguments that negative settlement residue complications should be avoided by implementing the interconnector through a micro-slice arrangement were discounted based on limited modelling and an assumption that direct trade between SA and NSW, supported by the SRA mechanism, would be a key benefit to consumers of the loop approach<sup>4</sup>. During the consultation process it was acknowledged that there would be lower frequency of, and potential for the accumulation of negative IRSR if PEC was implemented as a micro-slice through the Victorian region.

Shell Energy's concern with the proposed netting approach is that transferring the risk of unhedged negative settlement residues from consumers to market participants will likely add costs to consumers greater than the avoided risk. We consider that if the risk is successfully managed by market participants on behalf of consumers, as is expected by the Commission, the cost will still ultimately be borne by consumers. Reallocating the risk to market participants is unlikely to be cost reducing even in the most efficient market outcome when all costs are assessed. We also note that if participants determine that the SDR units offer little value, the negative residue risk which the proposal seeks to manage for any unsold units will remain with TNSP's and consumers.

Conversely, disrupting the SRA mechanism is highly likely to increase costs to consumers by an amount that will overwhelm any theoretical benefit achieved by reallocating negative settlement risks. Shell Energy's view is that the proposed netting approach will remove significant value from the SRD units on the transmission loop elements. The unpredictability of flows and netting outcomes will cause participants to significantly discount any expected cash flows from the instruments. This will result in very low SRD prices, if any SRD units are sold at all, as well as the instrument itself being considered much less effective at hedging interregional price exposures. We expect interregional hedging risk and costs will greatly increase and that this will reduce the incentive to engage in interregional trade. Consumers would observe this cost through inefficient generation investment over the medium term as well as passed-through increased hedging costs in the short term. This would be a perverse outcome of the proposed approach given that AEMO identified increased interregional trade as a key benefit of implementing PEC as part of a transmission loop.

Shell Energy's view is that the additional costs should not be underestimated, downplayed or positioned as just another risk to be managed. Rather the position outlined in the Directions Paper will have a significant impact on retailers' ability to efficiently hedge interregional exposures as well as manage Retailer Reliability Obligation (RRO) compliance. In our view, the first observation of increased hedging costs will be seen through the RRO, particularly in the South Australian region. For retailers using interregional contracts to satisfy their RRO contracting requirements, corresponding SRD units are required to be paired to meet the firmness guidelines. Following the closure of Yallourn Power Station in Victoria we consider similar challenges in securing firm volume contracts will emerge in the Victorian region. However, since the netting approach will reduce the effectiveness of the SRD units and make the interregional hedging approach too risky, we expect retailers will have to source hedging instruments from within the South Australian or Victorian region. The market and competition dynamics in these regions will make these hedges more expensive and will likely lead to higher costs for consumers.

Shell Energy recommends returning to the proposal contained in the Draft Determination to avoid impacting the SRA mechanism and the flow on effects highlighted above. However, we acknowledge some residual concerns with that approach from TNSPs regarding cash flow management for negative settlement residues. We remain of the view that these issues for TNSPs should be solved more directly either through the NEM settlements process (as detailed in our submission to the initial consultation paper<sup>5</sup>) or through an AER managed mechanism. The cost to consumers can be efficiently managed this way while avoiding cash flow risks to TNSPs. Critically, these approaches would not fundamentally change the operation of the National Electricity Market.

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<sup>4</sup> [final-paper-pec-market-integration.pdf](#)

<sup>5</sup> Shell Energy submission



### General Comments on the Proposed Approach

In line with the comments above, Shell Energy is strongly opposed to the proposed netting approach. Nevertheless, we include the following comments to ensure that if the draft rule is implemented it is as robust as possible.

- Shell Energy supports the Commission's position that SRD units would not be exposed to negative cash flow outcomes. Negative SRD cashflow outcomes would increase risk significantly and make the SRA mechanism completely unviable.
- Draft clauses 3.6.5 and 3.6.6 make it clear that each trading interval is to be calculated and settled separately. Shell Energy supports this approach so that there will be no netting of positive and negative residues between trading intervals. However, the draft allocates net negative Interregional Settlement Residues (IRSR) across regions based on annual energy demand. We recommend maintaining net negative residue settlement based on trading interval regional demands. In addition, the allocation of negative IRSR is proposed to be determined for a weekly billing period rather than being trading interval based. This appears inconsistent and will favour smaller regions over larger regions (ie SA over NSW). We recommend that the regional share in draft clause 3.6.6 be calculated on a trading interval basis which is consistent with how any negative or positive IRSR is calculated.
- We also note that the Commission has proposed that SRA proceeds (and any unsold SRD units) would continue to be allocated to the coordinating network service provider (CNSP) in the relevant region. CNSPs would then return this revenue to consumers. Our view is that it is inappropriate for consumers in one region to cross subsidise consumers in another region through negative residues while all positive outcomes are allocated to only the importing region. It would be more appropriate that all positive and negative outcomes are socialised and allocated using the proposed method based on regional demand.

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

Yours sincerely,

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