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Submitted via online submission portal: aemc.gov.au/contact-us/lodge-submission

RE: ERC0424 – Security Framework Enhancements

Shell Energy welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) rule change consultation on security and essential system services (ESS) framework enhancements.

About Shell Energy in Australia

Shell Energy provides the energy businesses and households need for today and tomorrow.

A generation-backed trader and energy retailer, Shell Energy powers businesses and homes and acts as a catalyst to positively impact Australia's energy future.

We provide electricity, gas, and innovative solutions for our customers, complemented by our portfolio of gas fired peaking power stations and battery storage assets, which support energy security and reliability.

Shell Energy is Australia's largest electricity retailer to commercial and industrial businesses, recognised for our market-leading customer service.¹ We offer business electricity, gas, and smart energy solutions. Our residential business, Powershop, provides greater choice and confidence to households and small businesses to help them take control of their energy through multiple energy plan options and digital tools.

Key Points

Shell Energy:

- Supports the joint AEC/CEC rule change and does not support progressing AEMO's proposal separately.
- Regards the existing expedited or alternative RIT-T processes as adequate for urgent network issues, since they have been applied before for system strength purposes.
- Does not support the proposed changes to the notice of closure period.
- Does not support changing the preconditions for declaring an NSCAS gap.
- Considers a directions paper is the appropriate next step in this consultation process and that the deferral of Eraring and Torrens Island B retirement dates has reduced the urgency of the consideration of the AEMO rule change proposal.

¹ 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.



General Feedback

Shell Energy fully supports the joint AEC/CEC rule change proposal and does not support progressing AEMO's rule change request separately. Given current shortcomings in the governance framework for essential system services (ESS) planning and procurement, Shell Energy considers the proposals should be considered together to avoid fragmented outcomes and ensure any reforms are built on a clear governance foundation.

If the Commission is unable to progress both proposals concurrently, Shell Energy recommends prioritising the AEC/CEC rule change over AEMO's proposal. Addressing governance deficiencies first will provide a clearer and more durable foundation for any subsequent reforms to system security arrangements.

Shell Energy is concerned by the increasing reliance on directions and other forms of market intervention to manage what should be the routine provision of essential system services. Beyond formal directions, AEMO has increasingly relied on manually imposed non-network limit based generic constraints in NEMDE to alter market dispatch outcomes. These interventions withdraw resources from the market and in many cases appear aimed at avoiding compensation for non-market dispatch outcomes and potentially have flow on effects of higher costs for consumers.

When a resource is directed for system security purposes, it is required to operate at a fixed loading and cannot respond to market price signals until the intervention is revoked. Similar outcomes arise through AEMO's application of its security enablement procedures for thermal generation. The approach limits the true availability of resources for dispatch (impacting price outcomes) and pre-dispatch reliability assessments (distorting forward market signals and intervention considerations). Overall, these direction and constraint outcomes may result in unnecessary increased costs to consumers and serve to highlight problems with the existing security frameworks governance.

In assessing AEMO's proposed rule changes, Shell Energy is concerned that they appear predicated on transmission network service providers undertaking full RIT-T processes and procuring new network assets, rather than giving due consideration to non-network options delivered as interim or permanent solutions. This creates a real risk of duplicative investment and higher long-term costs borne by consumers.

The governance framework for essential system services should remain technology-neutral and focus on achieving the least-cost outcomes for consumers. Shell Energy is not persuaded that AEMO's proposals meet this objective, as they appear biased toward network-based solutions over competitive non-network alternatives.

Shell Energy notes that the National Electricity Rules already provide for expedited or alternative RIT-T processes to address urgent network issues under clauses 5.16 and 5.16A. These provisions were successfully used, for example, in ElectraNet's 2019 system strength contingent project in South Australia² for the provision of the four synchronous condensers. As such, Shell Energy does not support AEMO's proposed amendments in this area. If the Commission considers further clarification necessary, any changes should be strictly limited. We recommend that the Commission consider only an amendment to clause 5.16.4(z1) to exempt the project from publication of a Project Assessment Draft Report. Further, we recommend that no change be made to clause 5.16A.4(m) as 5.16A.4 unlike 5.16.4 already does not require the publication of a Project Specification Consultation Report. In our view at least one stage of public consultation should be required prior to publication of the Project Assessment Conclusions report for any network investment.

Shell Energy does not see compelling evidence that increasing the notice of closure requirement from 3.5 years to 5 years will deliver material benefits. Existing closure dates are already submitted and, in practice, AEMO does not consistently rely on participant-provided dates in its planning processes. Our understanding is that closure dates calculated as part of the Integrated System Plan process are used for security planning purposes.

² [ElectraNet - Main grid system strength contingent project | Australian Energy Regulator \(AER\)](#)



In our view, generator closure dates must be credible and binding. In a market subject to significant external intervention, participants already face substantial uncertainty in forecasting closure decisions many years in advance. Extending the closure notice period beyond current settings would further limit the usefulness of these signals by compounding uncertainty rather than improving market transparency.

Shell Energy has concerns regarding AEMO's proposed change 1A (page 18, AEMO rule change), which would amend the Chapter 10 definition of an NSCAS gap by removing the requirement for AEMO to have revised the inertia requirements or the minimum three phase fault level for a system strength node as a precondition for declaring an NSCAS gap. This change appears more aligned with addressing any planning process issues within AEMO. By default, a change to a generator closure date would result in a change to the inertia requirements or minimum three phase fault level for a system strength node. Shell Energy also has concerns regarding the proposed change 1C (page 18, AEMO rule change), which would amend the Chapter 10 definition of an NSCAS gap to extend the timeframe under which NSCAS gaps of any type (i.e. system strength and inertia) can be declared, to timeframes that match the length of commissioning new resources to meet the identified NSCAS need. This appears to "double dip" on the proposed changes to the regulatory approvals process. Shell Energy is somewhat supportive of proposed changes 2A and 2B (page 20, AEMO rule change), as these would increase the time between identification of an essential system services need and notification to the market. However, we remain concerned about AEMO's ability to accurately identify such needs, based on historical outcomes.

Finally, Shell Energy considers that the consultation would benefit from an additional step. The extension of Eraring and Torrens Island B closure dates has removed the urgency to progress the AEMO rule changes. For that reason and because there is considerable debate amongst stakeholders about how to progress the two rule changes, we recommend that the Commission should issue and consult on a directions paper before the draft determination to clearly articulate policy objectives, governance roles, and the interaction between the two rule change proposals. This would improve transparency, stakeholder engagement, and the quality of eventual regulatory outcomes.

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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