



16 July 2026

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

RE: ERC0359 – Improving Contingency FCAS Arrangements (Draft Determination)

Shell Energy welcomes the opportunity to provide feedback to the Australian Energy Market Commission's consultation on the Improving Contingency FCAS Arrangements draft determination and draft rule.

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 Australia¹, Shell Energy offers integrated solutions and market-leading² 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](#).

Key Points

The key points in this submission are that Shell Energy:

- supports the AEMC's rejection of mandatory contingency-size co-optimisation in every dispatch interval, and runway-style FCAS cost recovery;
- supports increased transparency and reporting around AEMO's current practices;
- objects to codifying AEMO's use of generic constraints without stronger limits, oversight and compensation protections;

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.



- is concerned that AEMO could use the constraint formulation guidelines to progressively achieve the original Grids proposal without further Commission scrutiny; and
- reiterates our concerns about REZ contingencies, market complexity, contract market impacts, and the lack of quantitative evidence supporting broader reforms.

General Comments

Shell Energy supports the AEMC's decision not to proceed with the original proposals requiring mandatory co-optimisation of the largest credible contingency in every dispatch interval and the introduction of a runway-based contingency FCAS cost recovery framework. We consider that the draft determination appropriately recognises concerns raised by stakeholders regarding the limited demonstrated benefits, implementation complexity, dispatch impacts and potential effects on contracting markets.

Support for rejection of mandatory co-optimisation

Shell Energy supports the Commission's conclusion that the benefits of expanding contingency-size co-optimisation are likely to be modest, uncertain and concentrated in relatively infrequent market conditions. In our initial submission we noted that the consultation paper contained limited quantitative evidence supporting the proposed reforms and that any required changes to dispatch systems could create outcomes that increase total market settlement costs while seeking to reduce contingency FCAS costs. We also noted that benefits appeared most likely during periods of regional islanding or credible regional islanding rather than under normal operating conditions.

The draft determination's findings are broadly consistent with these concerns and support retaining existing arrangements.

Support for rejection of runway cost recovery

Shell Energy supports the Commission's decision not to introduce runway pricing for contingency FCAS. The Commission correctly identifies that such arrangements would be complex to implement and could create inefficient incentives. In particular, a runway-style framework could encourage participants to reduce output or change bidding behaviour even where they are not setting, or materially contributing to, the largest credible contingency. In those circumstances, participant responses may impose dispatch costs or reduce efficient market participation without reducing AEMO's underlying contingency FCAS procurement requirement.

Shell Energy continues to believe that any future consideration of FCAS cost recovery reform must be supported by robust quantitative analysis and should consider the implications of Renewable Energy Zones (REZs), multi-resource contingencies and network-related contingency events. As noted in our earlier submission, it remains unclear how a runway framework would apply where an entire REZ constitutes the largest credible contingency.

Concerns regarding codification of AEMO's generic constraint practices

While Shell Energy supports enhanced transparency, we are concerned by aspects of the draft rule that would formalise AEMO's historical practice of using generic constraints to affect dispatch outcomes without the compensation protections that ordinarily accompany formal intervention.

Historically, market design has been founded on the sound market design principle of dispatch outcomes being determined through bids and offers, with intervention powers available where AEMO considers intervention necessary. Where intervention occurs through mechanisms such as clause 4.8.9 directions, affected participants are entitled to compensation. We believe that the draft rule dilutes this market design principle by effectively



allowing intervention-like outcomes through the use of generic constraints without corresponding compensation arrangements.

Shell Energy considers this issue warrants further examination before the final rule is made.

Constraint formulation guidelines

Shell Energy supports requiring AEMO to document its co-optimisation methodology within the constraint formulation guidelines. However, we are concerned that the current drafting may provide a pathway for future expansion of contingency-size co-optimisation through guideline amendments rather than through further Rule change processes. Accordingly, the final determination should:

1. Clearly limit the scope of co-optimisation arrangements.
2. Require transparent consultation on any material expansion of such arrangements.
3. Clarify the circumstances in which intervention powers remain the appropriate mechanism.
4. Consider whether compensation arrangements should apply where generic constraints are used to achieve market-wide FCAS procurement benefits.

Reporting and transparency

Shell Energy supports the Commission's proposal to improve reporting and transparency. The proposed reporting framework will help establish an evidence base regarding:

- the frequency of co-optimisation constraint use;
- the effect on dispatch outcomes;
- impacts on FCAS procurement volumes;
- impacts on energy market outcomes; and
- the effectiveness of the arrangements in maximising the value of spot market trade.

Shell Energy recommends that reporting include sufficient detail to allow participants to assess the practical operation and market impacts of the constraints.

Financial contracting impacts

An important issue throughout this process has been the interaction between dispatch reform and financial contracting. Shell Energy remains concerned that more extensive co-optimisation arrangements could reduce the willingness of larger generation resources to provide financial contracts or increase the risk premium associated with those contracts. The Commission's decision not to mandate broad co-optimisation is therefore a positive outcome for maintaining efficient contract market operation and investment certainty.

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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