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

RE: ERC0425 Improving Compensation Frameworks

Shell Energy welcomes the opportunity to provide comments on the draft determination for Improving Compensation Frameworks.

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 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

Shell Energy supports the overall direction of the draft rule, particularly the harmonisation of the directions, administered pricing and market suspension compensation frameworks. However, the final rule could provide greater drafting clarity so that compensation does not depend on discretionary interpretation after a market stress event.

The key points we make in this submission include:

- **Directions involving energy storage:** The compensation framework should expressly cover storage directions, including state-of-charge requirements, preserved energy, charging headroom, and restrictions on charging or discharging, with opportunity-cost guidance that recognises both sides of the storage cycle.

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.



- **Bidirectional units and scheduled load:** The Rules should consistently recognise bidirectional operation so compensation rights apply whether a unit is directed to consume, prevented from consuming, directed to generate, prevented from generating, or required to maintain a storage position.
- **Compensation for non-network generic constraints:** Affected participants should not be left worse off where AEMO intervenes in normal market dispatch by the use of non-network generic constraints to materially alter dispatch outcomes without the transparency and accountability of a formal direction.
- **Minimum claim threshold:** The \$10,000 minimum claim threshold should apply to the participant's aggregate claim for additional compensation for the relevant event or direction, rather than create unequal outcomes based on registration structure or individual-unit treatment. The \$10,000 threshold should not apply to any preliminary compensation amounts determined by AEMO.
- **Calculation methodology and rule certainty:** Core eligibility principles and calculation architecture should be anchored in the Rules, with transparent methodologies that exclude intervention-distorted intervals and properly recognise direct, fixed and opportunity costs.
- **Independent expert and claims administration:** The independent expert and dispute-resolution process should be transparent, appropriately scoped to consider both eligibility and quantum, and supported by retaining the 60-day claim lodgement period.
- **Cost recovery and reporting:** Cost recovery should be technology-neutral and aligned with the purpose and beneficiaries of each intervention, while reporting should remain sufficiently transparent to explain the scale, cause and allocation of intervention costs.

General Comments

A fit-for-purpose compensation framework is essential to confidence in the National Electricity Market during periods of market stress and intervention. Participants should be able to understand in advance when compensation is available, how it will be calculated, what evidence is required, and how costs will be recovered. Those outcomes are particularly important as the market increasingly relies on energy-limited and bidirectional resources whose direct costs and opportunity costs do not fit neatly within concepts developed for conventional generation.

Shell Energy supports the draft rule's broad objectives, including greater consistency across the compensation frameworks, assessment of claims through AEMO and the independent expert function, recognition of opportunity costs, and assessment of administered pricing compensation on a per-unit and per-trading-interval basis. These reforms should reduce inconsistencies and improve incentives if the final drafting provides sufficient certainty. We are concerned that the current draft rules may not achieve the required level of certainty.

Our principal concern is that several important policy outcomes remain unclear in the draft rule. Ambiguity is particularly problematic in compensation provisions because it is only tested after an unusual and stressful event, when participants and market bodies may already be managing multiple operational, regulatory and information demands. The Rules should therefore resolve foreseeable interpretation issues now rather than leave them to claims administration or dispute resolution.

Directions involving energy storage

The final rule should expressly cover state-of-charge directions

The draft rule should expressly address a direction requiring an energy storage system to reach or maintain a prescribed level of stored energy. Such a direction may require a bidirectional unit to consume energy, refrain from generating, retain stored energy for later use, or preserve charging headroom. Each action can materially



restrict the participant's ability to operate through its normal market cycle and can create direct and opportunity costs.

The absence of express drafting in the draft rules creates a risk that a direction to maintain a state of charge is treated as neither the supply nor consumption of energy for compensation purposes. That would be an inefficient and technology-dependent outcome. A participant complying with an AEMO direction should not lose access to compensation merely because the operational requirement is expressed as a storage level rather than as a MW dispatch outcome.

Shell Energy recommends that the Commission amend the relevant operative provisions and, if necessary, the Chapter 10 definition of "*energy*" so that the compensation framework covers directions to:

- generate, consume or store *active energy*;
- consume energy to reach a specified state of charge;
- maintain a minimum or maximum state of charge for a specified period;
- preserve stored energy for later generation or system support;
- maintain charging headroom for later consumption; and
- refrain from charging or discharging where this is required by the direction.

The drafting should focus on the economic and operational effect of the direction, not only the label attached to the service. This would align the framework with the increasing role of bidirectional resources and avoid gaps as operational practices evolve.

Opportunity cost guidance must recognise both charging and discharging

Opportunity cost for energy storage cannot be assessed only by reference to a foregone generation interval. A direction can displace both sides of a storage cycle. Depending on the direction, the relevant loss may include the cost of charging at a different time, foregone discharge revenue, round-trip losses, inability to provide ancillary services, and the value of ending the direction at a state of charge different from the counterfactual level.

The Commission's opportunity cost guidelines should therefore establish a technology-neutral principle supported by technology-specific applications. For storage, the assessment should compare the participant's reasonable counterfactual operating position with the position required by the direction over an appropriate time horizon where the appropriate time horizon may vary by energy storage system technology. The time horizon for a BESS or pure pumped hydro storage system may be different to a hybrid pumped hydro system that has natural inflows and large storage capability. The approach should avoid both under-compensation and windfall recovery, and recognise that the relevant opportunity may arise after the directed interval. For example, a battery directed to maintain stored energy for evening reliability may lose the opportunity to discharge during an earlier higher-priced interval. Similarly, a battery required to maintain a low state of charge may lose the opportunity to charge during lower priced intervals.

Bidirectional units and scheduled load

The final rule should ensure that references to scheduled load include consumption by a bidirectional unit wherever that inclusion is necessary to give effect to the policy. A bidirectional unit can alternate between generation and consumption, and its consumption mode should not fall outside compensation provisions merely because the drafting uses legacy resource terminology.

Shell Energy recommends a clause-by-clause review of the draft rule to identify references to scheduled load, generating unit, generator, supply and consumption. The drafting should consistently address the relevant mode



of a bidirectional unit. A general deeming provision may assist, but it should not replace careful amendment of operative provisions where rights, calculations or cost recovery outcomes differ by mode.

This review should also confirm that a bidirectional unit can recover the relevant direct and opportunity costs when it is directed to consume, prevented from consuming, directed to generate, prevented from generating, or required to maintain a storage position.

Compensation for non-network generic constraints

Shell Energy is disappointed that the draft determination does not appear to address the compensation implications of AEMO using non-network, limit-based generic constraints to alter merit-order dispatch. The use of this mechanism is quite common which is why, in our initial submission, Shell Energy argued that amended compensation frameworks must deal adequately with these constraints because they can change dispatch and pricing outcomes without the transparency and accountability of a formal direction. We remain concerned that this creates an uncontrollable risk for participants, particularly where a resource is constrained on or off, or where active energy or FCAS capability is displaced without access to compensation.

We contend that it was the original intention of the market design that all dispatch interventions would be undertaken through 4.8.9 directions. Highly targeted, manually applied dispatch constraints aimed at achieving a specific operational outcome are indistinguishable from 4.8.9 directions and should be compensable. The final rule should therefore clarify that where AEMO uses a non-network generic constraint to achieve an outcome that materially departs from ordinary central dispatch, the affected participant is not left worse off merely because the intervention is implemented through a constraint rather than a clause 4.8.9 direction.

Minimum claim threshold

The basis for applying the \$10,000 threshold must be explicit

The draft materials do not clearly establish whether the proposed \$10,000 threshold applies by individual unit, participant portfolio, claim, direction, compensation event or eligibility period or if it applied only to claims for additional compensation. Shell Energy supports a proportionate minimum threshold for additional compensation claims, provided the upfront methodology captures the principal direct costs and the threshold is applied fairly. Preliminary compensation amounts should not be subject to the \$10,000 threshold.

This matters because the draft rule also moves administered pricing compensation toward assessment at an individual-unit level and removes netting across a portfolio. If the threshold were also applied unit by unit, separately registered small units could be excluded even where their combined uncompensated costs exceed the threshold. By contrast, the same physical capacity registered as one aggregated unit could pass the threshold.

For example: an aggregated 500 MW resource comprising four 125 MW units may be able to submit one claim exceeding \$10,000, while four individually registered 125 MW units with the same combined loss may each fall below a unit-level threshold. The Rules should not create this registration-dependent outcome.

Shell Energy recommends that the threshold apply to the participant's aggregate claim arising from the relevant compensation event or direction, before allocation across individual units for calculation and settlement purposes. At minimum, the final determination and rule should state unambiguously:

- what is aggregated when testing the threshold;
- whether multiple units, trading intervals and service categories may be combined;
- how the threshold applies where compensation frameworks overlap; and
- whether the threshold is tested before or after any preliminary payment or offset.



This recommendation preserves the administrative purpose of a threshold while avoiding unequal treatment based solely on registration structure.

Calculation methodology and rule certainty

Methodologies should be anchored in the Rules

Shell Energy has consistently supported clearer and more harmonised compensation methodologies. The final rule should contain the essential calculation architecture and eligibility principles, with guidelines used only for implementation detail rather than to determine the existence or scope of compensation rights.

In particular, the Rules should identify the relevant unit of assessment, treatment of bidirectional operation, exclusions from historical benchmark data, interaction between preliminary and additional compensation, and the treatment of overlapping events. Where AEMO or an independent expert must exercise judgment, the Rules or a binding guideline should specify the objective, relevant factors and evidentiary standard.

Historical VWAP calculations should exclude intervention-distorted intervals

Shell Energy supports technology- and region-specific historical VWAPs as a practical foundation for preliminary compensation. However, we suggest that improved clarity is required in the rules regarding their calculation. We recommend that rather than use the term *previous 12 month period*, which could exclude a period of recent price volatility, the rules instead use the *term previous 365 trading day period* to ensure inclusion of the most recent pricing information. Also, to reflect market-based outcomes, the benchmark should exclude intervals materially affected by a direction, market suspension schedule pricing, deployment of system services contracts, or a non-network generic constraint that displaces merit-order dispatch. Including those intervals would embed intervention outcomes into a benchmark intended to approximate ordinary market operation.

Technology categories should also distinguish resources with materially different operating characteristics. Batteries, pumped hydro and conventional hydro may face different charging, storage-duration and opportunity-cost conditions. The methodology should be transparent, repeatable and published sufficiently in advance of use.

The proposed draft rules set out that preliminary compensation for a unit would be calculated based on the greater of the market suspension price and the relevant VWAP capped at the administered price cap. Whilst this is suitable for generation output, it is unclear if the same should be applied for energy consumption. In the case of energy consumption, we suggest it should be the lower of the consumption VWAP or the market suspension price and could be floored at the administered price floor.

In considering the proposal to cap and floor the VWAP, AEMO's current calculation methodology caps and floors the market suspension pricing schedule prices at the administered price cap and floor. We question if this is a valid methodology to be applied to periods where an administered pricing period has not been declared. Whilst there is logic for the administered price cap and floor to be applied during an administered pricing period, we question if this should be applied at other times to the VWAP and market suspension pricing schedule prices. We note the Commissions view:

We also consider it prudent to mitigate potential perverse incentives as the VWAP could be capped by the APC due to sustained high prices prior to an administered pricing period.³

³ Draft Determination page 18



However, the Commission provides no further details as to what potential perverse incentives may exist. We recommend that the Commission give further consideration to this issue as part of this rule change.

Direct costs and fixed costs

The harmonised list of direct costs should be broad enough to capture genuine incremental costs across resource types, including energy input costs, incremental operating and maintenance costs, wear and tear, incremental staffing, and other costs directly attributable to compliance. The drafting should avoid terminology that is meaningful only for fuel-based generation.

The relationship between preliminary compensation and additional compensation should be clear. If fixed or direct costs are not adequately reflected in the preliminary payment, increasing the minimum claim threshold may deny recovery of genuine costs. We recommend that the Commission should test the combined effect of the benchmark methodology, direct-cost definitions and threshold, rather than consider each element in isolation.

Compensation for an other compensable service

AEMO has set out in its rule change request that it should not be required to determine if compensation should or should not be payable following the issue of a direction for what is classified as an other compensable service.⁴ The Commission in the draft determination has agreed with the rule change request to remove this requirement but has delayed the implementation until the Schedule 3 implementation date. It is not clear why this change should be delayed. To avoid the uncertainty caused by the removal of subclauses 3.15.7A(a) to (e), we recommend that the Commission reconsider the timing for their removal and include them in the Schedule 1 changes.

Independent expert and claims administration

Shell Energy supports a consistent claims pathway and the use of appropriately qualified independent experts, particularly for opportunity cost claims. The framework should, however, provide greater transparency regarding the establishment, selection and maintenance of the expert panel, appointment criteria, conflicts management, participant input and the allocation of expert costs. Clauses proposed in the draft rules allow for a participant to challenge the selection of the first independent expert selected by AEMO to assess a claim. This could have the potential to slow down an additional claims process. Shell Energy supports the inclusion of such a challenge process but suggests a viable alternative to this could be to allow this challenge process to occur during the independent expert panel selection process. This would allow later claims to be processed in a more timely manner.

We recommend that the Commission should retain responsibility for opportunity cost guidance and consult market participants on that guidance before the relevant provisions commence. The guidance should be available early enough for participants to understand the records and evidence they will need to retain.

The Rules should also avoid an outcome where AEMO first determines substantive eligibility through an opaque administrative step and the independent expert then only assesses quantum. Eligibility and quantum questions can be closely connected, especially for storage opportunity costs. The review process should permit all material issues to be considered on their merits.

Shell Energy supports retaining the 60-day period for participants to submit claims for additional compensation. Reducing the lodgement period to 30 days would prioritise settlement process timing over the quality and completeness of compensation claims, particularly where a claim requires participant-specific operating data,

⁴ Clause 3.15.7A



opportunity cost analysis or independent expert consideration. A shorter period could force participants to submit incomplete or poorly evidenced claims simply to preserve their rights, increasing the risk of rejection and undermining the purpose of the compensation framework.

Cost recovery and reporting

Shell Energy supports applying direction cost recovery across all trading intervals in which a direction applies, rather than only intervals in which intervention pricing is applied. A resource may incur costs throughout the directed period. Cost recovery should follow the beneficiaries and purpose of the intervention while avoiding arbitrary differences between technologies or registration structures.

Capacity directions should be defined clearly, including directions to store or preserve energy for future reliability or security needs. Whilst the Commission has determined that such directions have to date been rare, going forward we see the use of capacity directions by AEMO increasing to control charging and discharge timing for limited storage capacity energy storage systems. Where such directions are for future consumer benefit, recovery from consumers is appropriate. The Rules should not leave the classification of a direction, and therefore the recovery pool, to an uncertain post-event characterisation.

Shell Energy does not support reducing transparency in reporting on compensation and RERT costs. AEMO should publish sufficient information to allow participants and consumers to understand the scale, cause and allocation of intervention costs, subject to legitimate confidentiality constraints. Improved transparency also provides an evidence base for future review of whether the frameworks are operating efficiently.

Application date for the proposed rule

Rather than specifying specific dates from which the new frameworks will apply, we recommend the Commission consider if a “by date” would be more appropriate to allow implementation at the earliest possible time following the issue by either AEMO or the AEMC of the intended implementation date.

Conclusion

Shell Energy’s comments target changes that would reduce interpretation risk, improve confidence in compliance with AEMO interventions, and better align the compensation framework with the operational characteristics of the transitioning NEM. Shell Energy would welcome further engagement with the Commission on the detailed drafting.

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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