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Submitted electronically

RE: Amending the Administered Price Cap

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 more than 185,000 households and small business customers in Australia.

As the second largest electricity provider to commercial and industrial businesses in Australia¹, Shell Energy offers integrated solutions and market-leading² 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 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 opportunity to provide feedback on the proposed National Electricity Market (NEM) rule change to amend the administered price cap (APC). Shell Energy supports the intention of the proposed rule change which is to avoid a repeat of the market turmoil that was observed in June 2022. Whilst we acknowledge that a range of factors contributed to the market outcomes in this period we agree that a major factor was the interaction of the NEM's APC with generation input costs during a tight supply/demand balance period. Generation input costs were impacted by the lack of consistency between the processes for setting the APC in the NEM and regional gas markets. The market dislocation that occurred in June 2022 ultimately had a very negative impact on consumers through high compensation payments and the collapse of some retailers. To avoid a repeat of these outcomes, and to ensure that the APC continues to fulfil its function to protect consumers, we support the implementation of changes necessary to maintain a dispatchable market in the NEM in a wider range of circumstances.

A key issue that received little discussion in the consultation paper is that the APC acts as a cap on price outcomes and is not a fixed price that would prevail regardless of demand and supply outcomes. In this respect, the proposed change to the APC would not necessarily affect market outcomes in all trading intervals. It would however promote efficient dispatch outcomes where the marginal generating units respond as required to demand signals without the need for market intervention by AEMO. Shell Energy sees the promotion of dispatch efficiency as a key outcome for this rule change process.

Timing

Shell Energy supports broader changes to the APC mechanism that are more enduring than those proposed by the rule change proponent. We believe that a more comprehensive solution could incorporate revisions to the level of the APC, linkages between commodity markets, aligning the governance arrangements in gas and electricity markets, and consideration of compensation arrangements. However, we note that consideration of a different approach should be undertaken through robust analysis and consultation that cannot be accommodated within the expedited rule change process. We therefore support extending the end date for the proposed change to the APC until the Reliability Panel's work on designing an enduring solution can be implemented.

Revised Administered Price Cap

Shell Energy supports the view of the rule change proponent that the market may move in and out of the administered price cap regime in the next 12 to 24 months due to dislocations in the global energy markets. We see the revision of the

¹By load, based on Shell Energy analysis of publicly available data.

²Utility 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.

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APC level as the most appropriate short-term change to ensure that the market avoids relying on the interventions framework for dispatching the NEM. It is clear from the experience in the market recently that normal operational dispatch of power generators through NEMDE is far superior to a directions-based approach. It would also avoid the documented system security risks associated with activation of the market suspension pricing schedule where the loss of efficient market pricing signals can lead to ineffective dispatch signals to generators. We believe that the superior dispatch efficiency provided by market price signals is more than sufficient to warrant the change to the APC.

In determining the appropriate level of the APC that should apply during administered pricing periods, we support the approach to analysis undertaken by the AEMC in its consultation paper. Maximising the number of dispatchable generating units with short run marginal costs (SRMC) below the APC would ensure that plant operators are able to respond appropriately to price signals and limit the need for AEMO directions. In considering the SRMC for generation, we strongly recommend the Commission take into account the current level of APC applicable in the regional gas markets.

We support the AEMC's analysis which shows that the proposed temporary APC level would leave a large portion of dispatchable capacity in the NEM reliant on compensation mechanisms for cost recovery. This is unlikely to resolve the problem identified in the rule change request and could leave the market reliant on intervention mechanisms. Shell Energy's view is that targeting an APC level above the SRMC of 95% of generating units in the NEM would ensure that the market is dispatched efficiently and that consumers are protected from onerous compensation claims.

Cumulative Price Threshold

Shell Energy sees no need to modify the operation of the cumulative price threshold (CPT) outside of administered price periods. Shell Energy considers that an important purpose of the CPT is to protect consumers from exposure to sustained high prices without eliminating the price signals to incentivise new investment. From this perspective we view the current level and form of the CPT to be appropriate to provide this protection while also leaving sufficient signals for new investment. Obscuring investment signals even temporarily could have a lasting impact given the heightened need for investment as the energy system transitions to greater levels of renewable generation.

For any questions regarding this submission please contact Peter Wormald (peter.wormald@shellenergy.com.au).

Yours sincerely,

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