



4 April 2024

Julia Cassuben
Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

Dear Ms Cassuben

RE: Shortening the settlement cycle

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the shortening the settlement cycle rule change.

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 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 considers that the proposed rule change offers an intriguing opportunity to find ways to reduce the cost of energy to end users. Where there are inefficiencies or improvements in the market that can be found and resolved, it makes sense to address them. We agree that the current 20-day settlement cycle could potentially be improved upon. In assessing the merits of this rule change, we encourage the AEMC to investigate a range of options related to the settlement cycle that may also offer benefits to consumers.

As a first point, Shell Energy observes that the reallocations process can be used to achieve most of the aims set out in the rule change request. However, reallocation transfers spot market settlement component risk to the party, usually a supply side party, who has agreed to reallocation. This would be in addition to any contract-based counterparty credit risk. As such, it is relevant to consider why reallocations alone may not be suitable for some parties.

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.



It is also worth noting that whilst this proposed change could have benefits from an over-the-counter or direct counterparties contracts settlement perspective, it would have no impact on how ASX Futures contracts are settled. In our view this is an important input assumption in assessing the benefits of the proposed rule change.

This rule change could also impose additional costs on AEMO who would be required to change their systems to implement the changes. Shell Energy also wishes to understand whether making the rule change would require increased staff resources within AEMO to manage the more frequent settlements timetable, which would require additional ongoing costs. To the extent that any increased costs on AEMO would outweigh the potential benefits, then we do not see how this rule change would meet the National Electricity Objective (NEO).

It is unclear to Shell Energy that simply shortening the settlement cycle would deliver the magnitude of benefits set out in the rule change. Shortening the settlement cycle will impact the volatility component of the maximum credit limit calculation input assumptions and may increase the frequency of the issue of call notices by AEMO during any market price volatility period.

Shell Energy notes the AEMC asks whether there are potential risks involved in amending the prudential requirements (including Credit Limit Procedures) to reflect a shorter settlement cycle. We add that the consultation paper contains no details of any stress testing undertaken to determine this. Shell Energy recommends that prior to preparing any draft determination, stress testing using the June/July 2022 wholesale markets settlement period be undertaken. This should allow for and include the impact of the retailer of last resort rollovers that occurred during this period. We would not be supportive of a rule change that in effect increased the risks to the market, particularly during times of high volatility.

The rule change proponent argues that making the rule change would provide wider benefits through lowering barriers to entry. Shell Energy supports reducing barriers to entry where there are inefficient rules or requirements that increase costs to new entrants. However, in our view, the prudential requirements are not an example of poor or inefficient regulation. They are an important part of the rules designed to insulate the market as a whole against the wider financial risks of high volatility. In considering this rule change, in Shell Energy's view it is critical that the NEM's prudential standard continues to be met.

Finally, we would encourage the AEMC to examine other potential timescales for the settlement cycle. There may be a length in between the current 20-day cycle and the proposed 10-day cycle that would provide some of the benefits for a fraction of the costs.

Conclusion

Shell Energy is cautiously supportive of the proposed rule change, pending the AEMC's assessment of some of the impacts of the rule change. We would expect that if the rule change is to be made there would have to be a rigorous assessment that demonstrates that the costs of implementing the changes do not exceed the potential benefits, and that there is not an increased risk to the market as a result of changed prudential standards. Finally, we encourage the AEMC to analyse whether an alternative length of settlement cycle may offer a proportion of the benefits at a lower cost and risk to the industry.

For more detail on this submission, please contact Ben Pryor, Regulatory Affairs Policy Adviser (0437 305 547 or ben.pryor@shellenergy.com.au).

Yours sincerely

[signed]

Libby Hawker
GM Regulatory Affairs & Compliance