12 September 2024

Rachel Thomas
Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

Dear Ms Thomas

RE: Integrating Price Responsive Resourced Draft Determination

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination on the Integrating Price Responsive Resources (IPRR) 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 Australia[1], Shell Energy offers integrated solutions and market-leading[2] 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 acknowledges the desire to see more resources participating in the National Electricity Market's (NEM) central dispatch. Increasing the supply of scheduled resources should deliver market benefits through displacing higher cost generation, lower emissions, improving reliability and reducing the levels of frequency control ancillary services (FCAS) required. We agree that it is better to address the impacts of increasing levels of price responsive resources such as electric vehicles (EV), battery systems and conventional demand response

[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.

before they have a greater impact on the system. In that respect, it is sensible for the AEMC to deliver a draft rule now rather than taking a wait and see approach.

However, there are broader considerations that we contend should be taken into account. The AEMC, with input from the Australian Energy Market Operator (AEMO), has set a start date for the rule in November 2026. In the background of this implementation, the NEM is set to undergo another potentially substantial market redesign through the post-2030 review of the NEM. Our concern is that substantial investment and work will be undertaken to deliver this rule change in 2026, despite the fact it may need reworking by 2030.

Indeed, given the expectations of participation by 2030, Shell Energy queries whether this reform would be better integrated into the post-2030 NEM reforms instead. Any changes to the market as a result of the post-2030 reforms could either render the IPRR obsolete, or require a series of additional system changes, increasing costs to Voluntary Scheduled Resource Providers (VSRP). Participants may instead choose to defer participation until there is greater clarity around the post-2030 market design.

Adding further to the issue of timing, Shell Energy notes that a substantial level of detail is still to be determined through AEMO guidelines, including on conformance, and the prospect of VSRPs operating on a zonal basis rather than regional. This lack of clarity makes it challenging to assess the overall merits of the rule change, as well as how a Financially Responsible Market Participant (FRMP) could plan to participate. As these guidelines won't be complete until the end of 2025 that effectively leaves less than 12 months to prepare for participation with a full understanding of how a VSRP must operate. This may lead to further delays, or reduced participation in the initial stages.

Incentivising participation

In recognition of the fact the resources envisaged as participating as Voluntary Scheduled Resources (VSR) – e.g. small-scale batteries, demand response, EVs – can currently operate without needing to bid or be scheduled, the AEMC has investigated a range of incentives that VSRPs would receive, or have access to, should they choose to participate. This makes a degree of sense, in that VSRPs would have to receive benefits additional to what they can access now (effectively the spot price) to counteract the additional costs of participation and reduced control associated with becoming a scheduled resource.

A number of the incentives are logical as they essentially mirror how scheduled generators operate, e.g. eligibility for frequency performance payments, co-optimisation of energy and FCAS bids, access to regulation FCAS markets.

The fact that a tender-based incentive scheme is being proposed, in addition to the other differences that Voluntary Scheduled Resource Providers (VSRP) face compared to scheduled generators suggest that there are concerns that participation rates will be limited.

Shell Energy agrees with the AEMC that AEMO is not the natural home of an incentive mechanism and that an organisation like the Australian Renewable Energy Agency (ARENA), or eligibility in the Capacity Investment Scheme (CIS) is a more logical approach, rather than funding VSRPs through a charge on all NEM consumers.

Other incentives offer benefits specific to the kinds of resources that may participate as VSRs, including not being able to be constrained on and the ability to 'offset' VSRP capacity against a FRMP's liable load under the Retailer Reliability Obligation (RRO). In the case of the latter, the fact the AER will have to update its contracts and firmness guidelines delays certainty over how participants could benefit from this change. Again, this means potential VSRPs will have to wait to assess the full design and implications of the rule change before committing to participation.

We are also intrigued as to how the 'offsetting' of a VSRP's capacity will compare to the existing option of including demand response contracts in a retailer's net contract position. Without a meaningful difference

between the two options under the RRO, there may be no genuine incentive for demand response resources to participate as a VSR.

Based on these incentives, Shell Energy concludes that a voluntary approach will entail system costs for those choosing to become VSRPs as well as AEMO but may not deliver significant benefits. A mandatory approach would capture more price responsive load but would have to deal with how to classify load as price responsive, especially if it is done based on consumer preferences rather than through an orchestrated system (i.e. customers responding to wholesale price signals on their own without a retailer's input). A mandatory approach would have higher costs with some degree of benefits, while a voluntary approach will still entail costs but will deliver uncertain benefits.

To be clear, Shell Energy is not advocating for a mandatory approach. The challenge as we see it will be securing sufficient participation in the mechanism while it is voluntary. The fact that an incentive scheme is being proposed, in addition to the other differences that Voluntary Scheduled Resource Providers (VSRP) face compared to scheduled generators suggest that there are concerns that participation rates could be limited.

Given the AER and AEMO will be reporting on the extent of price responsive resources and the impact on the market, we have a genuine concern that bidding and scheduling price-responsive load risks becoming mandatory at some point, especially if there is little participation through the IPRR rule change. The concept of a 'two-sided' market is one Shell Energy has opposed previously. We consider the potential for a two-sided market is better discussed in-depth through a wider consideration of future market design than potentially being implemented as a result of expanding the intent of an existing rule. This is another reason Shell Energy believes deferring this rule change to the post-2030 NEM review would be preferable.

Additional incentives

Notwithstanding the concerns highlight above, Shell Energy has identified another potential area which could help incentivise participation. New solar installations are currently subject to emergency backstop provisions in most states. The provisions allow AEMO to direct local distribution networks to switch off enabled systems as a last resort. The backstop mechanisms apply to all behind-the-meter generation, so a site with both a battery and solar system would be affected if the backstop powers were used.

In our view, connection points actively participating[3] as a VSR should be excluded from the emergency backstop mechanism. Shell Energy considers that where connection points are responding to dispatch instructions and have scheduled their intentions with AEMO, there is little reason for AEMO to override those intentions. These sites would still need to be enabled to participate in the backstop mechanism as per the installation requirements, so they would not be exempt from being part of the backstop mechanism if the connection point was no longer part of a VSR. We consider that an exemption from state emergency backstop mechanisms while participating as a VSR could be a useful additional incentive for participation. We do recognise that there may be barriers or costs for AEMO to implement this system in practice give specific NMIs would need to be separated from the rest of the resources subject to emergency backstop arrangements.

Conclusion

Although Shell Energy understands the rationale for the rule change, and agrees with the aim to see more resources scheduled in the NEM, we have several concerns primarily relating to the timing and overall impact of the rule change.

[3] i.e. not deactivated or in hibernation

The post-2030 review of the NEM that is due to commence soon, meaning that market participants may need to make system changes for this rule change, with potentially more coming once the outcomes of the post-2030 review are known. This may reduce participation rates in the early years of the mechanism, creating costs for consumers for potentially little benefit.

Furthermore, the full detail of the arrangements relating to VSRPs will not be known until late 2025 once AEMO has developed its guidelines. This leaves less that one year before the mechanism starts in November 2026, reducing the ability of potential participants to identify opportunities to operate as a VSRP. Similarly, the full scale of incentives will not be known until details of the incentive mechanism and the AER's review of the contracts and firmness guidelines under the RRO are known. Again, this could limit participation early on, creating the perception of a 'poor' design or that participation should be made mandatory.

As such, Shell Energy considers that this kind of model for the participation of small resources in central dispatch is better implemented as part of the broader post-2030 NEM review.

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

Yours sincerely

[signed]

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