



19 December 2024

Kate Degen
Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

Dear Ms Degen

RE: South Australian jurisdictional derogation – Interim Reliability Reserve

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the South Australian jurisdictional derogation – Interim Reliability Reserve (IRR) 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 does not object to the expedited nature of this rule change. However, we have significant concerns with the rule change request, which we believe is unnecessary, exposes consumers to unnecessary cost increases and creates the precedents that the Enhancement to the Reliability and Emergency Reserve Trader rule change 2019³ sought to avoid. The Commission's rationale from this 2019 rule change for the out-of-market provisions set out in clause 3.20.3 was to minimise the potential for market distortions by making sure that only reserves that are not in the market are participating in the RERT. In considering their final determination in 2019,

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.

³ AEMC, 2019, [Final Determination Enhancement to the Reliability and Emergency Reserve Trader rule change](#)



the Commission considered that the then out-of-market restriction were too short, which could make it easy for providers to move in and out of the market rapidly. The final determination for this rule change concluded that:

*"The final rule promotes reliability being delivered by market participants through the wholesale market, first and foremost, so that costs associated with reliability are minimised for consumers. The final rule provides clear signals to the market that the RERT is an out-of-market service that is only to be used after market responses have been exhausted."*⁴

This market response included for the use of clause 4.8.9 directions for mothballed generating units by AEMO.⁵ Further:

*"On balance, the Commission concludes that, for scheduled emergency reserves, the benefits of stronger out-of-market provisions outweigh the potential costs in terms of limiting providers as well as the costs associated with determining whether these reserves are in the market or not. A longer provision remains appropriate - it is relatively straightforward to ascertain what is in, and what is out of market for scheduled providers given that these parties directly participate in the wholesale market. As a result, the risk of unnecessarily prohibiting efficient providers from participating in RERT is limited. These providers should be in the market in order to promote reliability."*⁶

We agree that meeting the reliability standards – be they the formal reliability standard or the interim reliability measure – is a crucial part of the National Electricity Objectives and to support confidence in the National Electricity Market more broadly. That does not mean that reliability should be achieved at any cost. There is a limit to what consumers are prepared to pay for reliability, as assessed by the Reliability Panel and informed by the Australian Energy Regulator's Value of Customer Reliability workstream. We note that the activation of 65 MWh of Reliability and Emergency Reserve Trader (RERT) reserves on 27 November 2024 in NSW cost consumers an average of more than \$54,700/MWh – or more than three times the Market Price Cap.⁷ This event highlights the need for careful consideration of RERT which may not always be seen as value for money to consumers, particularly given the actual real time dispatch and in-market reserve outcomes on the day.

In this case of this specific rule change request, we consider that the Australian Energy Market Operator (AEMO) already has sufficient powers to ensure that the generation units in question are available for the summer periods prior to their formally notified closure date. Firstly, the Snuggery and Port Lincoln generators remain registered for market participation and continue to submit medium-term and short-term projected assessment of system adequacy (MT and ST PASA) data as required by clause 3.7 of the Rules. In our view, it appears likely that dispatch bids could be submitted for these generators as required by clause 3.20.3(g), given they remain registered to do so. The provisions of Clause 3.20.3 specifically apply to RERT and IRR contracts and do not apply to the issue of clause 4.8.9 direction by AEMO as indicated as one of primary reasons by the proponent for the proposed rule change in the rule change request.⁸ Consequently, AEMO has the ability to issue a clause 4.8.9 direction to Engie to make their units available for 24-hour recall for the 2024-25, 2025-26, 2026-27 and 2027-28 summer periods. This would achieve much the same result as the proposed rule change without requiring a rule change.

Using the direction framework would also provide more transparency around the costs of making these units available. Engie in this case would receive compensation based on the direct costs of making the units

⁴ AEMC, op cit., p 154

⁵ AEMC, op cit. p 153

⁶ AEMC, op cit. p 161

⁷ AEMO, 4 December 2024, [Estimated payments and volumes for RERT activation on 27 November 2024](#).

⁸ [South Australia Urgent Rule Change Request.pdf](#), p 1.



available for 24-hour recall for the summer periods as well as the costs of dispatch if required to do so via AEMO direction.

Shell Energy also notes that clauses 3.20.3(g) and (h) in which the 12-month provision apply, in the case of a RERT contract relies on the declaration of a low reserve condition by AEMO triggered by a forecast exceedance of the reliability standard. No such declaration has been made by AEMO at this time. If the intent of this rule change is to apply a regional derogation for entering into reserve contracts for interim reliability reserves, triggered by a forecast exceedance of the interim reliability measure, then we suggest amendments should be made instead to clause 11.128.4(e) to exempt the provisions of 3.20.3(g) and (h) to reserve contracts for interim reliability reserves only.

We believe that the AEMC should reject this rule change so as not to create a precedent and instead uphold the safeguard against perverse incentives for generators (or demand response) to engage in strategic mothballing or withdrawals. This was noted as a weakness in the then out-of-market provisions during the Enhancement to the Reliability and Emergency Reserve Trader rule change 2019 process that resulted in the change to the rules that this rule change request seeks to temporarily remove.

Shell Energy wants to be clear that we support the IRM being met in South Australia and do not wish to see customers facing load shedding. We do, however, want to ensure that customers are not paying more than they need to safeguard reliability. Nor do we accept that customers will support reliability at any cost. As such, we recommend that the AEMC reject this rule change and instead recommend AEMO use its existing powers to issue a clause 4.8.9 direction to make these units available for 24-hour recall.

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]

Libby Hawker
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