



19 August 2021

Rebecca Lawrence  
Australian Energy Market Commission  
GPO Box 2603  
SYDNEY NSW 2001

Dear Ms Lawrence

## **RE: Generator Registrations and Connections Rule Change 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 generator registrations and connections rule change.

### **About Shell Energy in Australia**

Shell Energy is Australia's largest dedicated supplier of business electricity. We deliver business energy solutions and innovation across a portfolio of gas, electricity, environmental products and energy productivity for commercial and industrial customers. The second largest electricity provider to commercial and industrial businesses in Australia<sup>1</sup>, we offer integrated solutions and market-leading<sup>2</sup> customer satisfaction, built on industry expertise and personalised relationships. We also operate 662 megawatts of gas-fired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and are currently developing the 120 megawatt Gangarri solar energy development in Queensland. Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy.

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### **Generator registration threshold**

Shell Energy is disappointed in the AEMC's draft decision not to make a rule change requiring generators between 5 MW and 30 MW registered capacity to be scheduled in central dispatch in the National Electricity Market (NEM). We remain concerned that in rejecting this rule change, for what is now the second time, the AEMC is refusing to take action until the negative impacts of increasing volume of non-scheduled generation is apparent by which time the damage to consumer outcomes may have already occurred.

We consider that there is a significant risk of growth in the 5-30 MW bracket in the future, particularly given the significant advantages that generators would appear to have in staying below the 30 MW threshold. Shell Energy believes that this rule change process should look to the future needs of the NEM, which will ultimately include the retirement of large capacity scheduled supply side resources. To date, these resources have been the backbone of the NEM in Energy, FCAS and other power system services. In making this draft determination, we contend the Commission has focussed more on what is happening currently, than the potential of future risks.

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<sup>1</sup> By load, based on Shell Energy analysis of publicly available data

<sup>2</sup> 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 2011-2020.



Given the focus of the Energy Security Board's post-2025 market design work to try to implement changes to market settings before the damage arises, it seems incongruous for the AEMC to ignore the potential for increasing volumes of non-scheduled generation to distort market outcomes, and potentially put system security at risk.

We acknowledge the Commission has considered in detail reducing the threshold from 30 to 5 MW, but what is less clear is whether the Commission considered the benefits of a reduction in the 30 MW threshold to a lower value, e.g. 20 MW. While we recognise that 30 MW and 5 MW are existing thresholds within the Rules, these thresholds are more or less arbitrary based on historical decisions rather than firm thresholds at which the impacts change. The economics of installing new generation may drive the proliferation of non-scheduled generation connections to just below 30 MW to prevent the need to be registered as scheduled or semi-scheduled, but this may not be the case at a lower threshold like 20 MW.

We acknowledge that non-scheduled generation below 30 MW is currently a relatively minor proportion of total load, but it is growing. We expect that it will continue to grow over the coming years particularly given the lower level of requirements imposed on non-scheduled generation. If the market begins to see a range of 29 MW installations over the coming years, this draft decision not to make a rule change, will undoubtedly be one of the key drivers.

We also dispute the AEMC's insistence that the cost of becoming a scheduled generator is significant enough to be a barrier to small generators. The draft determination appears to assume a single way of being a scheduled generator, that the participant would be an active participant in the spot market. In practice, there are a range of lower-cost options that generators could adopt if they so choose. This could include being a relatively passive participant that does not regularly change its bids. Automated systems would then enable the generating unit to respond to dispatch instructions without the need for manual responses. Alternatively, a small scheduled generator could contract with one of the third-party service providers which currently exist who manage the market facing requirements on behalf of multiple registered participants. We understand the costs associated with such service providers is below the stand-alone costs indicated in the GHD report.

On a related note, the Department of Home Affairs is consulting on cyber security requirements that would impose material costs on generators with a capacity of 30 MW or larger in order to comply. This will provide yet another reason for generators to avoid these requirements by ensuring they remain below the 30 MW threshold. Therefore, the cost differential between being non-scheduled and scheduled will keep growing even though there is nothing special about the 30 MW threshold.

The AEMC has summarised AEMO's advice that whilst the NEM is providing satisfactory outcomes currently, this may not continue to be the case in the future.<sup>3</sup> AEMO identified that there are a range of trends that may lead to 5-30 MW non-scheduled generation contributing to operational issues in the future:

- Growth in the volume of generation in this size bracket.
- Growth in, and variation between, hybrid installations that need to be supported in a way that supports power system operation through consistent treatment of all types of plant.
- A trend towards greater price responsiveness by NEM market participants.

We consider that the AEMC could provide, in consultation with AEMO, trigger thresholds at which a review of this issue should be conducted. For example, when non-scheduled generation exceeds a certain percentage of total capacity or output at key times, or that there is evidence that the dispatch of non-scheduled generation is materially impacting price outcomes or power system security.

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<sup>3</sup> Draft determination p23.



The Commission points towards the 'scheduled lite' arrangements that form part of the ESB's post-2025 market design work as one way in which AEMO will have greater visibility of the intent of small generators. Given that this will be a voluntary mechanism and that at this stage the economic benefits of participating seem to be very small, we doubt that it will lead to a significant increase in the level of dispatchability or visibility of smaller resources that will be required for future operation of the NEM. Shell Energy's preference would be for the AEMC to make this rule change to reduce the threshold below 30 MW in order to increase the scope of resources that AEMO has visibility over rather than relying on a voluntary mechanism with little design detail at this stage that in the Commission own assessment could, but not would, increase the scope of resources which AEMO have visibility over<sup>4</sup>. Shell Energy considers that AEMO will need visibility and dispatch control over small supply and demand side resources in the not too distant future to ensure secure operation of the power system.

### **Exemption process**

Shell Energy broadly supports the Commission's more preferable draft rule to improve the transparency of the exemption and classification process. Shell Energy supports the proposed addition of the Registration, classification and exemption guidelines as part of Clause 2.1.3. However, we also note that subclause 2.2.3 (c) reads:

*If, in relation to an application under paragraph (b), in AEMO's opinion it is necessary for any reason (including power system security) for the relevant Generator to comply with some of the obligations of a Scheduled Generator or Semi-Scheduled Generator for that generating unit, AEMO may approve the classification on such terms and conditions as AEMO considers reasonably necessary*

The draft clause 2.1.3 provides no specific detail with regards to this subclause. We recommend that draft clause 2.1.3 be amended to ensure that the Guidelines clarify the process for AEMO's assessment relating to this subclause. Shell Energy recommends the Commission should provide added clarity regarding this in the Final Determination. However, to provide a greater degree of certainty that the Commission's intent is actually delivered by AEMO, we consider it preferable for the AEMC to set out a process in the Rules that AEMO must follow. Thus, we suggest that the AEMC set out a separate requirement in clause 2.1.3 to set out the process which AEMO must use to consider whether alternative requirements need to be imposed on an otherwise exempt generator.

Shell Energy also requests clarification within the Rules on whether the Commission considers the application of 2.2.3(c) is only limited to the time of application, or if AEMO is able to review the conditions under 2.2.3(c) and amend such conditions at any time, if required, to ensure secure operation of the power system. This would ensure consistency between this subclause and subclause 3.8.2(e) which reads:

*If AEMO considers it reasonably necessary for adequate system operation and the maintenance of power system security, Registered Participants who may otherwise be exempted from participating in the central dispatch process must do so to the extent and in the capacity specified by AEMO.*

Subclause 3.8.2(e) would seem to indicate that the terms and conditions of classification approved at the time of application under subclause 2.2.3(c) may be amended at any time by AEMO via application of subclause 3.8.2(e). We believe it would be helpful if improved clarity regarding this was provided in the final amended Rules.

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<sup>4</sup> AEMC, Generator registrations and connections, Draft rule determination, 24 June 2021, p26.



## Conclusion

Shell Energy considers that there are positive and negative aspects to this draft rule change. We remain concerned that there will be unchecked growth in sub-30 MW capacity non-scheduled generating capacity until there are clear and present risks to power system security and the market by which time a decision to adopt a lower threshold may be too late. This rule change along with other regulatory changes will only add to the incentive to deliberately avoid the 30 MW threshold.

While we agree with the changes to the exemptions process, we believe improvements could be made to provide a greater degree of clarity on what process AEMO must follow.

Yours sincerely

[signed]

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