Shell ENERGY

6 November 2023

Tyce Barton
Australian Energy Market Operator

Via email: **NEMIntervention@aemo.com.au**

Dear Mr Barton

RE: Regional Benefit Directions Procedures Consultation

Shell Energy thanks the Australian Energy Market Operator (AEMO) for the opportunity to review and comment on the Draft Regional Benefit Directions Procedures paper.

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 appreciates the intent of the Regional Benefit Directions Procedures paper which AEMO is currently consulting on. It is understood that the proposed Regional Benefit Directions Procedures will be used to determine the regional benefits associated with the issue of a direction, as well as the recovery of compensation arising from a direction.

Clause 3.15.8 (b1) states;

> (b1) *AEMO* must, as soon as practicable following the issuance of a *direction*, determine the relative benefit each *region* received from the issuance of a *direction* in accordance with the *regional benefit directions procedures*.

[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.

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In our view, a critical factor is the requirement to "determine the relative benefit each *region* received from the issuance of a direction".

Shell Energy has concerns for the implementation of the procedure as proposed, particularly as this relates to both the potential for flow on impacts for cost recovery of Reliability and Emergency Reserve Trader ('RERT') dispatch, and in our view how costs are allocated where the market participants who have accrued the benefits from the Direction may not be correctly identified.

The proposed methodology has the potential to affect all market participants, though some may be inadvertently subject to cost recovery for a Direction for services for which a reduced or no tangible benefit is received. Shell Energy's submission seeks to suggest changes to the proposed methodology to ensure that costs are distributed fairly to those that benefit for further consideration by AEMO.

Cost recovery of Regional Benefit

Shell Energy considers that the proposed procedure may be deficient in some scenarios where AEMO's procedure classifies only a single region, or where multiple regions are involved. This deficiency has the potential to increase where multiple regions are concerned as the proposed methodology does not in our view calculate a regional benefit as such, but instead simply allocates costs based on in which region the Direction is given and a region's share of total demand within the impacted regions. The proposed methodology is also unclear as to how cost recovery could be reasonably allocated where one region within a multi-region Direction may have very low demand.

Whilst a Direction for Energy is recovered only from consumers, Directions for other services is recovered from Market Customers, Market Generators and Market Small Generation Aggregators.

The key issue is that in our view the currently proposed methodology has no process for the calculation of an actual regional benefit as it associates regional demand as a proxy for a benefit rather than seeking to determine what the actual underlying benefit is and to which region(s) this accrues. Put simply, Shell Energy is concerned that the proposed methodology has not accounted for the common situation in which the region who has the greatest benefit from a Direction may not be the same region in which the Direction was applied. The current proposed procedure could see cost recovery only imposed on the region in which the Direction was applied as opposed to the region(s) who has benefitted.

In order to assess Shell Energy's concerns under the proposed approach, we have provided two examples below. The examples set out how the costs would be allocated under the proposed methodology, as well as a recommendation on how this may be corrected.

Example One: Queensland and New South Wales

The first example based on the proposed methodology is through cost recovery of a Direction in Queensland ('QLD') for reliability which covers both the Queensland (QLD) and New South Wales ('NSW') regions.

Under this example, Direction is for 500 MW of additional reserve capacity in Queensland.

Table 1: Example of QLD & NSW cost recovery under proposed methodology – Principal 5

Region	Demand	Total Demand	Share of Demand
New South Wales	13,500 MW	23,000 MW	58.7%
Queensland	9,500 MW		41.3%

Utilising the proposed methodology, if the interconnector was constrained towards NSW, then all costs would be correctly recovered from QLD as there would be no reserve support for NSW provided by the unit in QLD. However, if the interconnector were constrained towards QLD instead, then all costs would be recovered from NSW despite a Direction in QLD continuing to provide benefit in QLD.

Provided the interconnector is not subject to constraint at dispatch, cost recovery would be allocated as per Table 1 based on the share of each regions demand. Shell Energy considers that a more accurate calculation of the regional benefit could be determined based on the ability of the additional reserves to provide reserves to each region. We recommend that the methodology determine what benefit each region derives from the Direction as opposed to the currently proposed regional share of total demand approach.

Utilising Shell Energy's recommendation to more accurately calculate benefits, if the interconnector limit from QLD to NSW was -900 MW, and the actual flow from QLD to NSW was -800 MW, then the share of the 500 MW of Directed reserves in QLD available for use in NSW would only be 100 MW of the 500 MW Directed reserves due to the interconnector limit. In this case, NSW would only pay 20% of the cost of the Direction, which is also aligned with the actual benefit that NSW can receive from the Direction.

Further, if the interconnector were constrained towards QLD, then both states could benefit equally from the Direction and costs would be split 50/50. This contrasts the current approach in which costs would only be recovered from NSW.

Example Two: South Australia and Victoria

The second example based on the proposed methodology is through a Direction for an essential system service(s) ('ESS') in South Australia ('SA') that allows additional variable renewable energy ('VRE') generation output in both SA and Victoria ('VIC'). This example is particularly important given the relativity of load between these two regions at a time where ESS is expected to be required.

Under this example, both SA and VIC could benefit from the increase in VRE generation output, however the current approach would allocate all costs to the SA region as the proposed methodology (Principle 4 and Case Study 6.1) would see it as a Direction for ESS in SA.

Similarly, where the Direction only impacted VRE generation output in SA, (increased VRE output in SA) and due to the Direction output from these generators flowed either partially or fully across the interconnector into VIC, the current methodology determines that only SA market customers would benefit from the Direction. The determination under the proposed approach is despite the fact that an increase in output from the VRE generators in SA also benefitted market customers in VIC, who would not be considered as part of the proposed cost recovery exercise.

Shell Energy recommends that in this scenario, AEMO could calculate the increase in flows from SA to VIC due to the Direction as the percentage share in the overall increase in SA VRE generation output. For instance, if the increase in SA VRE generation output due to the Direction were 400 MW, and the increase in flows from SA to VIC were 300 MW, then VIC would receive 75% of the benefit of increased production due to the Direction and would therefore be allocated 75% of the costs.

Potential for impacts on RERT cost recovery

Whilst this proposed procedure has no direct impact with regards to cost recovery for RERT we note the potential for the similar allocation of costs for RERT cost recovery under Clause 3.15.9(c). In Example One above, currently costs for dispatch of 500 MW of RERT reserves would be recovered using the same formula as that shown in Table 1 although in our view the same issue of accurate regional benefit determination would apply. Currently there is no Rules requirement for AEMO to publish a methodology for the determination of regional benefits

associated with RERT contracting and/or dispatch. We recommend AEMO consider an additional consultation process for the determination of regional benefit arising from RERT contracts.

Conclusion

Shell Energy supports the intent of AEMO establishing a methodology to calculate the costs recoverable from market participants. Shell Energy is happy to engage with AEMO as part of this process to assist with understanding the impact of the proposal on the wider market, particularly as this relates to calculating where the true regional benefit of a Direction lies.

If you have any questions in relation to this submission, please do not hesitate to contact Shelby Macfarlane-Hill at **shelby.macfarlanehill@shellenergy.com.au**.

Yours sincerely

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