



28 January 2022

Anna Collyer
Chair
Energy Security Board

Dear Ms Collyer

RE: Transmission Access Reform Project Initiation Paper

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Energy Security Board's (ESB) transmission access reform project initiation paper.

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 Australia¹, we offer integrated solutions and market-leading² 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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General comments

Shell Energy appreciates the ESB's willingness to consider alternatives to the proposed Congestion management Model (CMM). The debate on transmission access reform has been lengthy and complex. We note that the ESB has developed the CMM in response to stakeholders' concerns around the originally proposed locational marginal price with financial transmission rights option. While the CMM certainly marks an improvement as it is somewhat more aligned with the current process for sharing of network access in the presence of network congestion, we remain concerned about the ESB's seeming preference for it to be used as a stepping stone to locational marginal price with financial transmission rights. Were there a firm commitment to maintaining CMM for the long term, then Shell Energy may be more likely to support the model, subject to the allocation of the proposed congestion rebates.

Notwithstanding this, we are disappointed that the ESB has chosen to cease consideration of options including deep connection charges and generator transmission use of system (TUOS). In our June 2021 submission to the post-2025 National Electricity Market (NEM) Review Options Paper, Shell Energy proposed a model based on locational connection fees where generators connecting to the network would work alongside transmission

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 2011-2020.

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network service providers (TNSP) to remedy the impact of their connection on other participants. In essence, this could mean that a generator could choose to be constrained off in return for a low connection charge, while a generator which valued a firmer connection may face higher costs for any network augmentation work required.

This model bears some similarities to the deep connection charges model that the ESB has ruled out but is quite different in substance. We consider there is still merit in our locational connection fee proposal, yet it appears the ESB has excluded it from consideration as the project initiation paper states: "Models that are substantially the same as models previously considered by the ESB are unlikely to be assessed differently..."³ We firmly believe that a more thorough consideration of our model is warranted as part of this process.

Congestion Management Model

More specifically on the CMM, Shell Energy wishes to raise some initial points as the ESB further develops the model. We understand that there will be further opportunities to respond to more detailed versions of the CMM. At this stage there are several key points we wish to raise.

Firstly, we are interested in how congestion rebates will be allocated and consider this a key factor of the CMM. We understand that the ESB has so far flagged that existing scheduled and semi-scheduled generators would be eligible to receive rebates. Further, the project initiation paper states that rebates will be based on a pre-determined metric such as "a generator's availability and participation factor in the binding constraints in comparison to other generators' availabilities and participation factors." For variable renewable energy (VRE) generators like wind and solar there are two possible "availabilities" that could be used: the maximum available capacity based on Projected Assessment of System Adequacy (PASA) bids, or the Unconstrained Intermittent Generation Forecast (UIGF).

The UIGF represents the level of generation that AEMO expects in each 5-minute trading interval. It is used by AEMO's National Electricity Market Dispatch Engine (NEMDE) to determine the dispatch of semi-scheduled wind and solar generating units. As such, Shell Energy considers that the UIGF is the more appropriate level of availability to use for semi-scheduled generators. While AEMO produces these forecasts as a matter of course, participants can perform and provide their own self-forecasts where they are superior to AEMO's own forecasts.

In addition, the ESB needs to set out how rebates will be allocated where construction of a renewable energy zone (REZ) results in the either the creation of, or increase in, congestion on existing generators. While there may be an efficient level of congestion within the REZ, the construction of a REZ may impact the level of congestion in the existing shared network. The CMM framework must set out how rebates will be allocated where generation connected to a new REZ impacts existing generation outside the REZ.

We also note that to date, the CMM has not included consideration of the impact of generator-funded network augmentations including runback schemes. When generators fund such augmentations, there can be broad network benefits through improved hosting capacity, meaning that more generation from a congested location can be sent into the grid. In these cases, we consider that as a principle, generators should be entitled to any additional congestion rebates in recognition of the costs involved in augmenting the network, and the overall benefits that network augmentations can provide. Shell Energy suggests that this would potentially encourage generators to invest in necessary augmentations. Without the rights to congestion rebates, this may disincentivise generators from funding network augmentations where they may provide a broader benefit.

³ ESB, Transmission Access Reform Project Initiation Paper, November 2021, p 6.



Lastly, any methodology to allocate rebates to interconnector settlement residue units must be transparent and discussed as part of further development of the CMM framework. This is to recognise that allocation of rebates to interconnector settlement residue units will have a negative impact on the level of rebates available for allocation to remote regional generators where interconnector flows and remote local generation interact for network access.

Alternative models

In addition to our own locational connection fee model, Shell Energy is open to other models proposed to solve the challenge of minimising the impact of transmission constraints and improved siting of generation and load. Edify Energy's congestion relief market is one such example which we see could deliver benefits to the market and consumers. In particular, we consider that there is a degree of simplicity to it which may make it preferable to the CMM. Further, the voluntary nature where parties that value congestion relief pay for the solution is another elegant feature. We encourage the ESB to give full consideration to this model, along with other viable alternatives in order to better assess the way forward for access reform. Given the scale of change the CMM would represent to the NEM, it is only reasonable that alternative models be assessed based on a comprehensive analysis to ensure that the most appropriate option can be implemented.

Conclusion

Shell Energy welcomes the ESB's call for alternative models for transmission access reform in the NEM. We see that there are a range of options that should be given due consideration and in-depth analysis to better assess their suitability as alternatives to the CMM. This includes our own previously proposed locational connection fee model as well as Edify's congestion relief market.

In addition, we have raised several points on the design of the CMM to highlight the need for further detailed work. In particular, we see that the ESB needs to consider how rebates will be allocated, particularly where generators have funded network augmentations that provide a wider network benefit.

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

Yours sincerely

[signed]

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