8 April 2021

Katalin Foran
Australian Energy Market Operator
GPO Box 2008
Melbourne VIC 3001

Dear Ms Foran

RE: Wholesale Demand Response Mechanism – Baseline Eligibility and Compliance Metrics Policy Draft Determination

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) Baseline Eligibility and Compliance Metrics draft determination.

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[1], we offer integrated solutions and market-leading[2] 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 thanks AEMO for their considered analysis of submissions as part of developing the draft determination. AEMO has set out a measured case for its proposed approach to baseline eligibility and compliance.

Shell Energy wishes to clarify some of the points we made in our submission to the issues paper (as ERM Power) and AEMO's response in the draft determination. In its response to Shell Energy's comments on the impact of the 20 per cent accuracy threshold on demand forecasts, in section 4.1.2, AEMO in our view inaccurately indicates that "*RERT baseline accuracy is measured on an aggregated basis*".[3] While this may be correct for some Reliability and Emergency Reserve Trader (RERT) contracts where a number of smaller loads are aggregated, RERT dispatched from larger loads would be dispatched and assessed on an individual NMI basis. Our view regarding AEMO's statement is further supported by review of AEMO's quarterly RERT contracting reports which indicates that RERT was overwhelmingly dispatched from large loads, many of which may seek to register as

[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.
[3] AEMO, Baseline Eligibility Compliance and Metrics Policy Draft Report and Determination pp 8

wholesale demand response loads.[4] In our view, for AEMO to argue that RERT loads overall are assessed for dispatch accuracy on an aggregated basis seeks to avoid the Australian Energy Market Commission's recommendation that "*The standard for baselines used for wholesale demand response, which is required to be reliable and predictable, should be higher than that experienced with emergency demand response such as the RERT.*"[5] Based on loads reported by AEMO as participating in RERT, we also disagree with AEMO's view that "*a single NMI with a load of 30 MW or more will be rare*" and believe that loads of such size or greater will seek to participate as wholesale demand response loads.

Similarly, in section 4.7, AEMO in our view incorrectly points to error trigger thresholds for semi-scheduled generating units dispatch compliance monitoring. These error forecasts relate to the conformance calculation for compliance with dispatch instructions rather than the accuracy levels that AEMO uses when preparing and amending demand and wind and solar forecasts. Our understanding is that for wind and solar generation AEMO uses accuracy levels far below the 20 per cent accuracy threshold or even the 10 per cent accuracy threshold recommended in our submission for wholesale demand response. This would seem to run counter to Clause 3.10.3 in the Final WDRM Rule 3.10.3 which requires that:

"(f) In determining the baseline methodology metrics and the frequency of baseline compliance testing, AEMO must have regard to: ...

> *(3) the level of accuracy achieved by the demand forecasts used by AEMO for pre-dispatch and the forecasts referred to in rule 3.7B(c)(4)."*

Further supporting this is AEMO's Power System Operating Procedure SO_OP_3710 – Load Forecasting,[6] which in section 7 sets out the forecast error thresholds in MW for each region where AEMO determines that a revision of its pre-dispatch forecasts is triggered. These forecast error thresholds are arguably much lower than 5 per cent, let alone the 10 per cent value recommended in our previous submission.

We remain concerned that the 20 per cent accuracy threshold fails to comply with the Wholesale Demand Response Mechanism Final Determination and may lead to poor outcomes in demand forecasts and dispatch. The cost impacts of this will be borne by consumers. The Draft Determination and Report seems to point to a fact that AEMO wants to facilitate greater participation in this first summer of operation which would seem to increase the risks of poor outcomes for consumers overall if less accurate baselines are used. AEMO will allow on-the-day adjustments of +/- 20 per cent which would seem to provide greater scope for loads to remain baseline compliant within a tighter accuracy threshold despite higher than usual load around the time of a demand response event.

We consider that a 10 per cent accuracy threshold would meet the requirements set out in the Final Rule as well as the intent of the AEMC's comments in the Final Determination that AEMO "*should require baselines to exceed the levels of accuracy considered 'good' in the AEMO-ARENA demand response RERT trials*"[7] without unnecessarily limiting participation. Further, it would meet the AEMC's objective that "*sets out a baseline compliance process that means only loads that can have accurate and unbiased baselines will be able to participate. This should minimise the impact of baseline inaccuracy on the rest of the market and provide greater confidence that the demand response provided under the mechanism is real and additional.*"[8] We do not agree

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[4] https://www.aemo.com.au/energy-systems/electricity/emergency-management/reliability-and-emergency-reserve-trader-rert/rert-reporting

[5] AEMC, Wholesale Demand Response Mechanism Rule Change – Final Determination, June 2020, p 176.

[6] https://www.aemo.com.au/-/media/files/electricity/nem/security_and_reliability/power_system_ops/procedures/so_op_3710--load-forecasting.pdf?la=en

[7] AEMC, Wholesale Demand Response Mechanism Rule Change – Final Determination, June 2020, p 176.

[8] AEMC, Wholesale Demand Response Mechanism Rule Change – Final Determination, June 2020, p 172

with AEMO that the 20 per cent accuracy threshold meets the requirements of the Rules or the objectives as set out by the AEMC in the Final Determination.

Shell Energy wants to see wholesale demand response in the market in accordance with the provisions of the AEMC's Wholesale Demand Response Mechanism Rule Change – Final Determination We believe it can play an important role in helping to balance supply and demand at critical times and deliver overall benefits to consumers. Yet, wholesale demand response is not an end of itself. If the WDRM as applied by AEMO delivers inaccurate outcomes, all parties are worse off – from the wider consumers who may be paying for something not delivered and providers of wholesale demand response who may be paid too little for what they have delivered. Shell Energy remains convinced that the development of more baselines is what is needed to expand participation in the WDRM rather than less stringent accuracy and bias metrics.

Finally, we support AEMO's comments that it will not grandfather eligibility based on these initial settings. We consider this is an important decision as it means that should the accuracy or bias thresholds need improving – particularly as new baselines are developed – AEMO will not be locking in poor performing loads into the Wholesale Demand Response Mechanism (WDRM). Shell Energy considers that it will be important that as more baselines are accepted into the WDRM, the accuracy and bias thresholds should become more stringent so as to avoid some loads aiming to cherry-pick a less stringent baseline, when a more accurate baseline is available. This continual improvement should form one of AEMO's goals for the WDRM as it continues beyond this first summer of operation. We look forward to working with AEMO as it looks to develop more baselines for the WDRM in 2022.

Yours sincerely

[signed]

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