Shell ENERGY

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Submitted electronically: StakeholderRelations@aemo.com.au

**RE: Project Energy Connect Integration Paper**

## About Shell Energy in Australia

Shell Energy is Shell's renewables and energy solutions business in Australia. Shell Energy delivers business energy solutions and innovation across a portfolio of electricity, gas, environmental products and energy productivity for commercial and industrial customers. Our residential energy retailing business Powershop, acquired in 2022, serves more than 185,000 households and small business customers in Australia. 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. Further information about Shell Energy and our operations can be found on our website here.

## Preferred Approach

Shell Energy notes that the Project Energy Connection Integration Paper sets out two options for the integration of Project Energy Connect into the National Electricity market:

- Introduce as an interconnector loop between SA, Vic and NSW
- Introduce as a micro-slice where all flows through the new interconnector notionally travel through Victoria.

We consider that the NEM would be best served by integrating Project Energy Connect (PEC) via the second micro-slice option potentially with metering to the south and west of the new Buronga 330/220 kV switchyard. This retains both the current hub and spoke interconnector framework in the NEMDE as well as the existing settlement residue design for auctions, settlements, and the management of negative interconnector settlement residues.

Shell Energy does not support the proposed introduction of PEC as an interconnector loop between SA, Vic and NSW. In 2007 the AEMC issued their Final Determination to abolish the Snowy region. One of the primary reasons for the removal of the Snowy Region was to remove loop interconnector flows from the NEM hub and spoke regional design. This was due to the negative impacts of loop flows on market pricing and dispatch outcomes as well as on the financial contract markets. Shell Energy considers that AEMO's proposal to integrate PEC as a loop interconnector would reintroduce all the negative market outcomes previously observed when the NEM contained the Snowy region. These were well documented in the AEMC's Final Determination on the Snowy region[1].

We note that the paper contains no conclusive arguments as to why integrating PEC as an interconnector loop provides additional benefits to the market. In addition, the paper in our view does not consider the additional network constraints that will be required to manage the additional flows on the upgraded network between

[1] AEMC Final Determination: Abolition of Snowy Region (https://www.aemc.gov.au/sites/default/files/content/fd224e2a-6a6d-404f-89b1-001017694f90/Final-Rule-Determination.pdf)

Buronga NSW and Red Cliffs in Vic. This in our view strengthens the arguments for integration of PEC as a micro-slice through Vic as the various intra-regional constraints to manage this will be needed regardless of the option chosen. The paper also does not provide arguments that the calculation of inter-regional marginal loss factors would be more difficult or less accurate if PEC is integrated using the micro-slice through Vic option.

In conclusion, it is Shell Energy's view that integrating PEC as an interconnector loop introduces greater complexity and risk to the market in the form of pricing and dispatch outcomes as well as increased the probability of negative interconnector settlement residues. This will require changes to the settlement residues process and will impact the financial contracts market and ultimately costs to consumers. For these reasons we oppose the integration of PEC as an interconnector loop.

**Management of Settlement Residues**

Should AEMO choose to integrate PEC using the suboptimal proposal as an interconnector loop, Shell Energy supports retaining the status quo, Option 1A, for the management of negative interconnector settlement residues. This approach would see all negative residues funded from the settlement residue auction proceeds payable to TNSP's.

Alternatively, Shell Energy would support a combination of options 1A and 3. Under this approach, initially all negative residues would be funded by TNSP's from their total SRA proceeds. The next step would see payments to settlement residue unit holders scaled back using the positive settlement reallocation proposal only for defined co-settled interconnectors. This alternative would remove the issue of unmanageable negative settlement residue risks for TNSP's whilst also reducing the negative impact on settlement residue unit holders if option 3 was introduced alone.

For further detail or questions regarding this submission please contact Peter Wormald (peter.wormald@shellenergy.com.au).

Yours sincerely,

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