



13 February 2023

Energy Policy WA
Level 1
66 St Georges Terrace
Perth WA 6000

Lodged email: energymarkets@dmirs.wa.gov.au

Dear Energy Policy WA,

RE: Cost Allocation Review Consultation Paper

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to Energy Policy WA's (EPWA's) Cost Allocation Review Consultation Paper (the Consultation Paper), released on 15 December 2022. The Consultation Paper includes proposals for improvement of the current Cost Allocation framework applied in the Wholesale Electricity Market (WEM) and we understand feedback from this consultation will inform the development of an information paper to conclude the review of the allocation of market fees and essential system services costs to Market Participants (MPs). Once finalised, amending WEM Rules will be released for consultation dependent on what responses are received during the current stage of consultation.

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 more than 185,000 households and small business customers in Australia.

As the second largest electricity provider to commercial and industrial businesses in Australia¹, Shell Energy offers integrated solutions and market-leading² 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 has recently acquired a 50% share of Kondinin Energy Pty Ltd (Kondinin) which will be our first West Australian renewables development. The centrepiece of the Kondinin project is the Kondinin Wind Farm, a wind development which would generate approximately 230MWs, across two stages, into the SWIS. Kondinin also holds approvals to develop a 80MWs solar farm and ~60MWs BESS which comprise stages three and four of the Kondinin project.

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 understands that feedback from this consultation will be used to inform the development of an information paper which will then conclude the Cost Allocation Review. Further to this, the information paper will inform amending WEM Rules.

¹By 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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Shell Energy have two representatives on the Cost Allocation Review Working Group (CARWG) and have provided verbal feedback throughout this process in the CARWG meetings. The feedback provided has been recorded in the agreed minutes which are publicly available on the CARWG [webpage](#).

We note that there have been several CARWG meetings with detailed discussion around the allocation of market fees. We appreciate the opportunity to have been involved in the review and we note that the level of consultation that has been undertaken has been thorough.

Feedback on the Consultation Paper has been provided below under the relevant sections.

Section 3 – Allocation of Market Fees

In the absence of a wholesale change to allocated costs to the ultimate beneficiaries, Shell Energy supports retaining the current cost allocation proposal to remain unchanged. Shell Energy believe changing the existing cost allocation method is difficult to justify unless there are demonstrated benefits to alternative methods.

We note that we do not necessarily believe that the current allocation method is the most fit for purpose as this was introduced when the market commenced in 2006 and over time, complexities in the market have increased and there has not been a review undertaken until now.

Section 3.4 – Treatment of Energy Storage Facilities

Shell Energy believes storage facilities will play a vital role in the decarbonisation transition of the WEM, providing a wide range of system benefits to all users of the transmission and distribution system. Shell Energy supports measures that can be introduced to encourage the entry of these technologies.

However, we urge EPWA to consider the implementation costs associated with suggested treatment of storage facilities in the Consultation Paper prior to any policy decisions being finalised. The pragmatic approach applied in other sections of the Consultation Paper (assessing the efficiency benefits against the cost of implementation) should be applied to ensure that customers are receiving a net benefit from the proposed treatment of storage facilities.

Section 5 – Regulation Raise and Lower

Shell Energy support both proposals in the consultation questions in this section and note that the WEM deviation method introduces the least complexity. We request that EPWA undertake a cost benefit analysis to inform the recommended method as this will provide stakeholders and Government with the information needed to make a considered decision.

Section 6 – Contingency Reserve Raise

The proposal in the Consultation Paper to treat units in a facility separately for the purposes of calculating the Facility's Contingency Reserve Raise costs, needs to be properly considered and we need to look at what behaviours this change will drive. Additionally, in the circumstance where a facility has multiple connections, has there been modelling undertaken to determine the risk value of all facilities and multiple scenarios in the WEM as the risk value should not necessarily decrease because a unit has multiple connections.

We note that the larger the facility's capacity the greater share you should bare because you are at greater risk of compromising being available (such as a forced outage), which does not support the wholesale market objectives or the guiding principles of this review.³

Shell Energy does not support the proposed recommendation of treating separately the units in a facility if each of the units have separate network connections and note the following:

- If this is simply an improvement on the existing method, it's hard to build an argument against the concept of treating the output from separately connected units as two distinct "contingencies";

³ The Wholesale Market Objectives are: (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system; (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors; (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions; (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.



- There is no transparency as to how an assessment of the facilities risk value would be conducted;
- Assessment of a facilities risk value is likely to be a subjective process; and
- The change is unlikely to result in a net-benefit to customers, the overall cost of Contingency reserve is unlikely to change and therefore the implementation costs are unlikely to be recovered.

Section 8.2 – System Restart

Support retaining the existing method.

Section 8.3 – NCESS

Support retaining the existing method.

Conclusion

We appreciate the opportunity to provide feedback on the Cost Allocation Review and welcome further analysis on alternative cost allocation methods in the future that may be more fit for purpose as the market changes.

Shell Energy encourages further analysis be undertaken as described above and presented in the next round of stakeholder consultation.

We welcome the opportunity to discuss our submission further. Please contact Tessa Liddelow at tessa.liddelow@shellenergy.com.au for any queries regarding this submission.

Yours sincerely

Libby Hawker

General Manager – Regulatory Affairs & Compliance

03 9214 9324 – libby.hawker@shellenergy.com.au