



2 November 2023

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

Lodged email: [energymarkets@dmirs.wa.gov.au](mailto:energymarkets@dmirs.wa.gov.au)

Dear Energy Policy WA,

## RE: Review of the Participation of Demand Side Response in the Wholesale Electricity Market Consultation Paper

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to review and provide feedback to Energy Policy WA (EPWA) on the Review of the Participation of Demand Side Response (DSR) in the Wholesale Electricity Market (WEM) Consultation Paper (the Consultation Paper), released on 21 September 2023. We understand that the Consultation Paper forms part of Stage 3 of the review and stakeholder feedback will inform recommendations and the development of rule changes once finalised.

### 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<sup>1</sup>, Shell Energy offers integrated solutions and market-leading<sup>2</sup> 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](#).

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<sup>1</sup>By load, based on Shell Energy analysis of publicly available data.

<sup>2</sup> 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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## General Comments

Shell Energy understands that feedback from this consultation will be used to inform rule changes developed upon finalisation of the review. We agree that DSR participation in the new WEM requires substantial change and better enablement in the WEM Rules to effectively support and incentivise future participation as the WEM moves through the energy transition.

We understand that the DSR Review contains design elements that were highlighted through the Reserve Capacity Mechanism (RCM) Review which is currently in its final stage with Amending Rules currently being prepared by EPWA for the Minister for Energy. The RCM provides an avenue for DSR participation both directly and indirectly however, the introduction of capability classes to enable additional revenue streams for non-intermittent generation will complement the intention and objectives of this Consultation Paper.<sup>3</sup>

We acknowledge there have been significant changes to the demand profile in the South West Interconnected System (SWIS) since commencement of the WEM, and believe DSR will play an important role in providing increasingly necessary flexible/firming services required to support the transition to a lower emissions energy system. We welcome the opportunity to consider the proposals outlined in the Consultation Paper and have provided our feedback under the subheadings below.

### Proposal 3 – Settlement grade sub-meters for hybrid facilities

Shell Energy recognises the importance of and broadly supports metering accuracy, however, at this stage we see the proposal for installation of settlement grade sub-meters for hybrid facilities as cost prohibitive and likely to increase barriers to entry for DSR participants. We welcome further consultation on a detailed design of this proposal with consideration given to the practicalities of the installation of such sub-meters.

### Proposal 4 - Baseline threshold

As outlined in Section 3.3.1., Shell Energy is supportive of a dynamic baseline threshold for measuring performance of Demand Side Programmes (DSPs) and believe this is the most appropriate approach to mitigating risks of gaming. The dynamic baseline approach has been supported by the RCM Review however, further work was required to address the risk of gaming by introducing an 'X of Y' methodology with a day of adjustment to be incorporated.

We note that DSPs likely to participate are commercial or industrial businesses and carry their own operational priorities and circumstances, and as such would not willingly put these core business objectives at risk by gaming the system. We support the proposal that compliance monitoring be undertaken using ex-post mitigation through examination of data to detect undesirable behaviour, in the event that this is not mitigated using ex-ante measures.

Shell Energy believes the 'X of Y' approach is the most reasonable and effective methodology and appreciates the supporting analysis of dynamic baseline threshold methodology approaches in other jurisdictions<sup>4</sup>. Shell Energy favours the baseline adopted in the NYISO market using the 5-of-10 baseline with the average of the 5 highest kWh days out of the 10 most recent weekdays. The analysis provided in the Consultation Paper for this approach supports the notion that this is the most appropriate method for large and industrial customers as this would best reflect the profile of such DSR participants and form the most like-for-like basis for measurement.

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<sup>3</sup> [https://www.wa.gov.au/system/files/2023-05/epwa\\_reserve\\_capacity\\_mechanism\\_review\\_information\\_and\\_consultation\\_paper.pdf](https://www.wa.gov.au/system/files/2023-05/epwa_reserve_capacity_mechanism_review_information_and_consultation_paper.pdf)

<sup>4</sup>



Shell Energy suggests that if this baseline methodology is adopted, there be flexibility applied to the definition of “day” so that the method could differentiate between trading days, weekdays and weekend days. To establish the most accurate counterfactual demand, we support the use of like-for-like days which reflect what the customer would use on a similar day.

## Proposal 5 - Supplementary Reserve Capacity (SRC)

The Consultation Paper proposes no changes be made to the SRC mechanism as the SRC framework “already provides for the effective participation of DSR”<sup>5</sup>. Shell Energy believes it is important to continue work on improvements to strike a balance for incentivising DSR participation in both the SRC and WEM. It is crucial to assess the participation of DSR in the operation of the SRC mechanism this hot season (1 December 2023 to 1 April 2024) and undertake consultation post hot season with an analysis on the value of participation including DSR services.

Shell Energy does not necessarily agree that the SRC framework already provides for effective DSR participation, as there have not been enough instances to demonstrate this. In practice, the competing markets (SRC, RCM, WEM) increase the amount of value available to participants. Whilst it may be more cost effective and efficient for DSR services to only participate in the WEM during this period, due to the notable increase in demand and forecast shortfall of capacity in the coming years<sup>6</sup>, we note SRC is necessary to ensure reliability and stability of the SWIS. We consider that effective participation relies on a more flexible mechanism and suggest that if a review is triggered following this hot season, the 20% cap could be lifted or removal of the 10/10 days would further incentivise participation in the SRC mechanism.

At this stage, there has only been one SRC period triggered (2022-2023 hot season) and following this EPWA undertook a review of the provision and operation of SRC<sup>7</sup>. In the Stage 2 Consultation Paper, EPWA outlined amendments are being made to DSR participation in the RCM through the RCM Review, and once these changes are implemented, EPWA considers these should also be applied to DSR services providing SRC<sup>8</sup>. We understand the Amending Rules to include the outcomes of the RCM Review will be provided to the Minister for Energy in December 2023, and we encourage EPWA to continue engagement on DSR participation across the RCM, SRC mechanism and the WEM.

## Conclusion

We appreciate the recognition of enabling greater participation of DSR in the WEM and thank EPWA for their efforts in providing a detailed analysis for consideration in the Consultation Paper. As we move through the energy transition it is crucial to unlock future revenue streams for existing and new participants and we see increased DSR participation as a functional and valuable service to address forecasted shortfalls over the coming years.

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

Yours sincerely

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<sup>5</sup> [https://www.wa.gov.au/system/files/2023-09/dsr\\_review\\_consultation\\_paper.pdf](https://www.wa.gov.au/system/files/2023-09/dsr_review_consultation_paper.pdf), pg 16.

<sup>6</sup> [https://aemo.com.au/-/media/files/electricity/wem/planning\\_and\\_forecasting/esoo/2023/2023-wholesale-electricity-market-electricitystatement-ofopportunities-wem-esoo.pdf?la=en&hash=E05FBD7B0EEF023895B6360D590BAE26](https://aemo.com.au/-/media/files/electricity/wem/planning_and_forecasting/esoo/2023/2023-wholesale-electricity-market-electricitystatement-ofopportunities-wem-esoo.pdf?la=en&hash=E05FBD7B0EEF023895B6360D590BAE26), pg 9.

<sup>7</sup> <https://www.wa.gov.au/government/document-collections/supplementary-reserve-capacity-review>

<sup>8</sup> [https://www.wa.gov.au/system/files/2023-06/src\\_review\\_stage\\_2-consultation-paper.pdf](https://www.wa.gov.au/system/files/2023-06/src_review_stage_2-consultation-paper.pdf), pg 8.



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