



15 August 2024

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

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

Dear Energy Policy WA,

RE: Consultation Paper for the Wholesale Electricity Market Investment Certainty Review (Initiatives 1 and 2)

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to provide feedback to Energy Policy WA (EPWA) on the proposed Wholesale Electricity Market Investment Certainty Review (WIC Review) (Initiatives 1 and 2) Consultation Paper (the Consultation Paper) released on 19 July 2024. We understand that this Consultation Paper includes findings and recommendations for two of the five reforms that were announced by the Minister for Energy as part of the South West Interconnected System Demand Assessment (SWISDA) on 9 May 2023 with the remaining reforms to follow in later stages of consultation by EPWA.

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 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 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](#).

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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General Comments

Shell Energy understands that feedback on the Consultation Paper will be used to finalise and implement the recommendations which will enable the Australian Energy Market Operator (AEMO) to commence implementation of the Wholesale Electricity Market (WEM) Rules which have been prepared to introduce the new Flexible Capacity product. The new Flexible Capacity product formed part of the Reserve Capacity Mechanism (RCM) Review that was finalised in 2023 with WEM Amending Rules introducing the outcomes of the RCM Review.

Shell Energy have been participants on the WIC Review working group and we thank EPWA for establishing this working group and for providing opportunities for meaningful discussion around the initiatives being proposed through the WIC Review.

Shell Energy have outlined our response to the Consultation Paper and have provided feedback on the proposals in the below table.

Proposal	Shell Energy Feedback
<p>Proposal 1 RCP at RCT</p>	<p>Shell Energy are supportive of setting the Peak Reserve Capacity Price (RCP) to 100% of the Peak Benchmark Reserve Capacity Price ³(BRCP) at the Reserve Capacity Target (RCT) in conjunction with other curve amendments including the deadband changes (95% to 105%). This setting would balance capacity investment signals with the overall cost incurred by consumers.</p>
<p>Proposal 2 RCP Deadband</p>	<p>We are supportive of the proposed deadband approach where there is a 'flat priced' region around the RCT to reduce volatility that may take place year to year and to provide investment certainty. Shell Energy encourages EPWA to consider the need to shift the deadband region in accordance with any changes to the changes at Proposal 1 to allow for flexibility and room to move, and notes that the deadband region will need to be set appropriately in accordance with the BRCP.</p>
<p>Proposal 3 RCP Cap</p>	<p>Shell Energy are supportive of Proposal 3 where the maximum Peak RCP is set at 150% of the Peak BRCP. We agree that the proposed changes to move to a steeper curve is appropriate to send a sharper signal for investment during a capacity shortage.</p>
<p>Proposal 4 RCP floor</p>	<p>Shell Energy support the reasoning and conclusion outlined in the Consultation Paper and agree that this will contribute to supporting investment certainty in the WEM. Additionally, the proposal includes a RCP floor that is higher than other interconnected markets and we believe this is appropriate given the isolated nature of the SWIS.</p>

³ <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/benchmark-reserve-capacity-price>



<p>Proposal 5.1 Allow any new facility that provides Flexible Capacity to receive (on request) a fixed RCP for ten years</p>	<p>We are supportive of allowing new facilities which provide flexible capacity to request and potentially receive a fixed RCP for ten years. We believe this creates the right incentive for investment in renewable energy.</p>
<p>Proposal 5.2 Set a maximum Flexible RCP at 160% of the Flexible BRCP, when the number of Flexible Capacity Credits issued is 85% of the Flexible RCT.</p>	<p>Supportive as the flexible product RCP being set at 160% as this will send the right investment signal.</p>
<p>Proposal 5.3 Set the Flexible RCP to 100% of the Flexible BRCP where the number of Flexible Capacity Credits issued is 100% of the Flexible RCT .</p>	<p>Shell Energy believe the Flexible RCP should be set to a value greater than 100% when at RCT as this will send the signal that investment is still required, particularly as the WEM transitions to more renewable energy sources. We encourage EPWA to be mindful here of creating a signal that may disincentivise investment.</p>
<p>Proposal 5.4 Set the minimum Flexible RCP on the same basis as the Peak RCP.</p>	<p>Supportive.</p>
<p>Proposal 6 Review of the RCP Curve Parameters</p>	<p>Shell Energy remain supportive of a holistic review of BRCP arrangements, including the RCP Curve parameters and agree that this should form part of the Coordinators regular review of the BRCP technology.</p>
<p>Proposal 7.1 Transitional Pricing Arrangements</p>	<p>Supportive of the existing transitional pricing arrangements.</p>
<p>Proposal 7.2</p>	<p>Shell Energy are supportive of the existing arrangements and do not believe introducing new transitional arrangements are necessary in the current market.</p>
<p>Proposal 8.1 Eligibility for RCP Guarantee</p>	<p>Support proposals to allow for incentivising investment in both renewable fuel sources and storage.</p>
<p>Proposal 9 Duration Requirement</p>	<p>Shell Energy requests further reasoning to support the additional 20% buffer at this stage as there are no requirements for this to occur where Electric Storage Resource (ESR) facilities are only based on their ability to deliver firm output for a four-hour period. We encourage EPWA to consider amendments to the four-hour duration obligation to extend to five hours if there is a buffer being implemented.</p> <p>The SWISDA also supports this as it indicates a need for new flexible gas from 2031, 8-hour storage from 2026 and long duration storage from 2030 to maintain security and reliability. A 4-hour battery has been selected as the reference technology to set the BRCP however, this places risk on investment signals for other types of capacity (SWIS Demand Assessment 2023 to 2042, Figure 3, p5.)</p>



Proposal 10 Implementation	Shell Energy requests further reasoning to support the preferential treatment of long duration storage at this stage. We encourage EPWA to consider amendments to the four-hour duration obligation if there is a requirement for this technology.
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Conclusion

We welcome the opportunity to discuss our submission further and look forward to contributing to consultation in the next stages of the WIC Review. Please contact Tessa Liddelow at tessa.liddelow@shellenergy.com.au for any queries regarding this submission.

Yours sincerely

Libby Hawker

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