



12 August 2025

Energy Policy WA
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Perth WA 6000

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

Dear Energy Policy WA,

RE: Allowable Revenue Framework Review

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to provide feedback to Energy Policy WA (EPWA) on the Consultation Paper for the review of the Australian Energy Market Operator's (AEMO's) Allowable Revenue Frameworks (ARFs) under the Electricity and System Market Rules (ESM Rules) and the Gas Services Information Rules (GSI Rules).

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 this review has been initiated following two rule change proposals put forward by AEMO. The two rules changes, [RC_2024_01](#) and [GRC_2024_01](#) sought to replace the current Allowable Revenue and Forecast Capital Expenditure processes. Subsequently, both rule changes were rejected by the Coordinator due to stakeholders being unanimously unsupportive of the proposed removal of Economic Regulation Authority (ERA) oversight, citing risks to AEMO's accountability, transparency and cost impacts. The Coordinator then determined a review be conducted, and transitional Amending Rules were implemented to apply during the review period. The review is now at Stage 3 and this Consultation Paper will be followed by finalising the detailed design of the framework and then drafting ESM and GSI amending rules.

Despite the proposal to allocate ERA oversight for BAU expenditure, and remove ERA oversight for non-BAU expenditure, Shell Energy remains of the view that ERA's regulatory supervision role for all expenditure is critical to maintain trust and confidence for market participants and ensure accountability and credibility. Shell Energy does not support the proposal to remove the ERA from having oversight of AEMO's allowable revenue process including both BAU and non-BAU expenditure. Instead, we recommend that the current process be improved to ensure that the ERA can carry out its role effectively and provide additional certainty to market participants that AEMO revenues are appropriately governed and effectively scrutinised.

Nevertheless, we have provided feedback under the assumption that this situation will not be revisited and as such, our feedback is outlined below.

Proposal 1: Incentives and Penalties

Shell Energy are supportive of the enhancements to strengthen governance and reputation incentives to hold AEMO accountable for the effectiveness and efficiency of its operations. We agree that requiring AEMO to publish audited financial accounts for WA functions separate from aggregated organisational accounts, requiring key executive's performance indicators to include links to efficient financial performance, and timely project delivery, should have a positive impact on increasing reputational incentives. This will uphold good governance practices and provide stakeholders with some insight into what is driving AEMO and its key executives.

Proposal 2: Preparation Process – BAU Expenditure

Separation of BAU and non-BAU

Shell Energy do not support the removal of the ERA's regulatory oversight of non-BAU expenditure and instead, request that the improvements be made to the current process. Shell Energy believe it is crucial for this type of AEMO expenditure to undergo formal scrutiny by the ERA and ensure that there is no risk of such expenditure being mis-classified as non-BAU and avoid scrutiny.

However, if the proposed separation and different treatment of BAU and non-BAU expenditure is pursued, we request that there be a robust, detailed and formal process for the Independent Review Panel (the Panel) to undertake when assessing non-BAU expenditure. If the ERA is not responsible for assessing whether a project and its related costs need to be incurred and whether those costs represent a prudent and efficient option, then the Panel must ensure there is a prudent process in place.

Proposal 2 also suggests that further guidance would outline BAU and non-BAU delineation, including potential overlaps where a non-BAU project transitions to a BAU activity. Shell Energy encourages AEMO, EPWA and the ERA to make this delineation clear to stakeholders prior to making any formal decisions on this process and share the guideline with stakeholders for consultation. Non-BAU projects have the potential to be significant costs to the market and, as we experience increases to market fees as a direct consequence, it is imperative that



MPs are provided with more certainty around expenditure. Therefore, we recommend providing clear definitions and processes for managing this type of overlap situation.

Proposal 3: Preparation Process – non BAU Expenditure

We support the requirement for AEMO to prepare an individual project plan for each non-BAU project and recommend including cost estimates which cover both internal labour, external labour costs and appropriate contingency. By providing this type of information up front and including a reasonable contingency, MPs will have greater confidence in project delivery by AEMO and this will provide more certainty, less surprises to the market and hopefully less adjustments to project costs and therefore future increases to market fees.

In relation to preparing and planning for projects, we refer to an adjustment to forecast capital expenditure in 2024 that AEMO published for ERA approval, where AEMO stated:

“Despite making best efforts to estimate the cost of implementing these reforms previously, as implementation activities have progressed AEMO has discovered it has significantly underestimated the complexity of the reforms and of developing and adapting the associated IT systems.”³

We have concerns around how AEMO can prepare plans for each non-BAU project that most effectively addresses these types of challenges. The Consultation Paper includes a “Treatment of Uncertainty” section in Appendix A and we recommend EPWA consider these approaches used by other jurisdictions, especially where policy makers (EPWA) can work collaboratively with AEMO to categorise projects into “lifecycle projects” as follows:

“Lifecycle” projects included in approved revenue, “reform/redesign” projects scrutinised individually before commencement, with multi-year business plan used to signal upcoming activity (subject to separate preparation and consultation, driven by policy maker)

Proposal 4: Content -BAU

Shell Energy believes the guidance provided by the ERA to AEMO in forming its BAU budget submission in proposal 4.1, should be formally incorporated into the Rules, therefore ensuring the appropriate level of governance and consultation on future changes.

Shell Energy support proposal 4.2 for AEMO’s BAU submission to be combined with an overarching business plan, to provide context to the strategic drivers, major risks and priorities that are driving AEMO’s expenditure.

Shell Energy support the proposal setting the minimum information for AEMO’s BAU expenditure submission to the ERA as the detail AEMO would reasonably be expected to prepare in the ordinary course of business. Where this information is deemed insufficient by the ERA, we suggest allowing ERA powers through the Rules to request additional supporting information or reject the expenditure request.

Proposal 5: Content – non BAU

Shell Energy supports proposals 5.1 and 5.2 regarding the proposed content to be included in an individual project plan required by the Project Governance Plan.

³ [Attachment-1-AEMO-Adjustment-to-2022-2025-Forecast-Capital-Expenditure-proposal.pdf](#), page 3.



Proposal 6: Assessment and Approval Process

Shell Energy recognise that the current process for BAU expenditure approval is not fit for purpose however, we would like to express the following concerns regarding the proposals outlined in this section relating to AEMO having final authority to approve non-BAU project plans.

Shell Energy is of the view that the role of the Panel, and the Panel's remit to include the publishing of reports and recommendations only seems to address transparency. We suggest a third party undertake an assessment in the event there is disagreement between the panel and AEMO, with the Coordinator having final approval decision rights in these instances.

Additionally, we have concerns around proposals 6 and specifically 6.6 and consider that the ERA is better suited to assessing whether expenditure is appropriately identified as BAU or non-BAU. This will add additional confidence to MPs that projects have been accurately classified and progressed through the correct pathway for assessment by either the ERA or the Panel.

Proposal 7: Funding Period – BAU Expenditure

Shell Energy is supportive of the proposal.

Proposal 8: Funding Period – non BAU Expenditure

Shell Energy is supportive of the proposal and believe that 6 monthly reviews will provide MPs with transparency and give some indication of future impact to market fees.

Shell Energy requests the requirement to submit project plans under proposal 8.1 be coupled with a requirement for AEMO to develop and submit project plans as early as possible, to provide MPs with as much notice as possible on any future WEM fee increases.

Proposal 9: Treatment of Uncertainty

Proposal 9.4 recommends that projects estimated to cost less than \$5 million total, can commence by AEMO up to 3 months prior to the project plan being reviewed and approved by the Panel.

We agree that there should be some flexibility in these instances given that policy projects do at times require urgency for delivery. However, we refer to the Allowable Revenue Framework 5 determination where 50% of projects exceeded their budget and were initially deemed to cost close to or less than \$5 million⁴. Cumulatively, this is a large cost and we recommend a process developed for smaller projects to have the same level of scrutiny as larger non-BAU projects, with a mechanism for flexibility. Shell Energy considers there should be a cap on the cumulative cost of smaller projects commencing prior to the project plan being reviewed and approved by the Panel.

Additionally, we do not agree that uncertainty measures are not required for non-BAU expenditure, and would argue that this expenditure has historically contributed significantly to the increased market fees we have seen in recent years. We have concerns that BAU and non-BAU expenditure is proposed to be treated very differently and we suggest this be re-examined. Historically, costs for policy reform projects have significantly deviated from

⁴ Australian Energy Market Operator Allowable Revenue and Forecast Capital Expenditure 2019/20 to 2021/2022, table 5, page 9.



what was originally estimated which has led to impacts such as increased market fees and delays in project delivery and implementation.⁵

We believe that it is important to address the treatment of uncertainty for non-BAU expenditure as outlined in our feedback under proposal 3 and in circumstances where AEMO commences a project categorised as such. We request that given AEMO has already undertaken an assessment of cost of the project, we request AEMO be required under the ESM Rules to publish a notice to the market containing this information which will address uncertainty, provide transparency to market participants and ensure AEMO is held accountable.

Proposal 10: Treatment of Volatility

Shell Energy agrees with the proposals and suggests additional transparency measures could be introduced to ensure MP's can reconcile fee movement and drivers over time.

Proposal 11: Monitoring and Reporting

Shell Energy are supportive of AEMO's establishment of the Major Projects Working Group (the working group) and note we have a representative on this working group. We do appreciate that the working group has just commenced with its first meeting having been held on 25 June 2025, however, the primary role of the working group is to undertake implementation assessments of what AEMO deems a major project, which involves figuring out the most efficient and cost-effective options for implementation. We would like to highlight that this is at the stage where a major project has been determined due to rule change/legislative change which is followed by implementation by AEMO. It is at the point of implementation assessment where the working group is afforded transparency however, the costs of the implementation of major projects should be provided through a cost benefits analysis at the point of policy development and through stakeholder consultation prior to amending rules being passed.

Shell Energy does not believe that the working group is an adequate forum to address the current lack of transparency regarding the costs of major projects and should not be solely relied upon. We recommend AEMO, EPWA and the ERA work collaboratively at the stage of policy development, to provide a cost benefits analysis inclusive of an estimated implementation cost. This option would provide greater transparency to all Market Participants of energy transition major projects including the timing, implementation activities and costs which will improve reputational incentives for AEMO but also lead to better informed decision making and more effective feedback from stakeholders.

In addition to the reporting approach outlined in proposals 11, its unclear explicitly where AEMO would be required to report on metrics outlined in proposals 1.3, ensuring that reputational incentives are strong and transparent.

Proposal 12: Post Implementation Review

Shell Energy support the proposal to undertake a post-implementation review within 3 years of implementation however, we believe there should be regular ongoing reviews to ensure the framework remains fit for purpose.

Conclusion

We welcome the opportunity to discuss our submission further. Please contact Tessa Liddelow at [REDACTED] for any queries regarding this submission.



Yours sincerely

Libby Hawker

General Manager – Regulatory Affairs & Compliance

