



1 September 2026

Energy Policy WA
Level 1
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Lodged email: energymarkets@dmirs.wa.gov.au

Dear EPWA,

RE: Capability Class 2 Technologies Review – Consultation Paper

About Shell Energy in Australia

Shell Energy provides the energy businesses and households need for today and tomorrow.

A generation-backed trader and energy retailer, Shell Energy powers businesses and homes and acts as a catalyst for change to positively impact Australia's energy future.

We provide electricity, gas, and innovative solutions for our customers, complemented by our portfolio of gas-fired peaking power stations and battery storage assets, which support energy security and reliability.

Shell Energy is Australia's largest electricity retailer to commercial and industrial businesses, recognised for our market-leading customer service.¹ We offer business electricity, gas, and smart energy solutions. Our residential business, Powershop, provides greater choice and confidence to households and small businesses to help them take control of their energy through multiple energy plan options and digital tools.

General Comments

Shell Energy welcomes the Capability Class 2 Technologies Review and supports EPWA's objective of ensuring the Reserve Capacity Mechanism (RCM) continues to promote power system security and reliability as the participation of Electric Storage Resources (ESR) increases within the South West Interconnected System (SWIS). As new technologies become an increasingly significant component of the capacity mix, it is appropriate that market settings are periodically reviewed to ensure obligations, incentives and compliance frameworks remain fit for purpose.

In progressing this review, Shell Energy encourages EPWA to maintain a practical and proportionate approach that supports reliability outcomes while preserving efficient market signals and competition. Any new obligations imposed on Market Participants should be supported by a clearly demonstrated need for reliability, operate transparently and minimise unnecessary intervention. It is also important to note that there are concurrent

¹ 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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regulatory reforms underway and we request EPWA work with the ERA to ensure consistency with this review and the review of the Offer Construction Guideline, to avoid overlapping or conflicting compliance outcomes.

A representative from Shell Energy participated in the Capability Class 2 Technologies Review Working Group, and we thank EPWA for engaging closely with stakeholders throughout the review process. Notwithstanding this engagement, Shell Energy considers that the proposed Lack of Reserve -State of Charge (LOR-SOC) framework represents a significant market design change that warrants further consultation before implementation. The proposal introduces new operational obligations, compliance risks and intervention mechanisms for ESR participants, the impacts of which still need to be considered by industry. Given the increasing importance of ESRs to the SWIS, we encourage EPWA to establish a dedicated working group to further assess the design, implementation and potential unintended consequences of the framework before final decisions are made.

Proposal 2 – DSP availability obligations

Shell Energy does not support the proposed change to the DSP availability obligation window from 6:00am to 10:00am to 8:00am to 12:00pm. While the Consultation Paper identifies a range of morning and evening availability window options, the analysis presented does not clearly demonstrate that the 8:00am to 12:00pm window provides a superior reliability outcome compared with alternative options. In particular, the assessment presented in the paper appears to support the need for a split morning and evening availability framework, but does not establish a sufficiently strong evidence base for selecting the specific 8:00am to 12:00pm morning interval over other configurations. The rationale for such a material change to DSP obligations should be supported by clear and compelling evidence demonstrating an improvement in reliability outcomes.

Shell Energy is also concerned that moving the morning obligation period to 8:00am to 12:00pm may create unintended operational and market impacts that have not been fully assessed. DSP arrangements are settled, contracted and operated around existing market frameworks, and changes to availability windows may introduce additional complexity for participants and customers without a demonstrated reliability benefit. Given the potential implications for DSP participation, customer flexibility and existing commercial arrangements, we consider further analysis and stakeholder consultation would be beneficial before adopting the proposed 8:00am to 12:00pm window. A more cautious approach would be to retain the current settings unless a clear net benefit can be demonstrated.

Additionally, where the underlying analysis does not clearly identify a reliability deficiency associated with the current morning window, the case for changing DSP obligations is not compelling. Accordingly, Shell Energy does not consider that the information presented in the Consultation Paper justifies the proposed shift to an 8:00am to 12:00pm obligation period at this time.

Shell Energy also supports the proposed flexibility allowing DSP Market Participants to elect a reduced availability obligation in exchange for a corresponding reduction in Capacity Credits. This approach better aligns Market Participant obligations with the reliability value being provided and may encourage continued market participation from customers unable to commit to the full availability requirement.

Proposal 4a – State of Charge obligations during Low Reserve Conditions

Shell Energy understands the rationale for the proposed LOR-SOC framework and agrees that batteries should be appropriately charged and available ahead of periods of heightened reliability risk. However, we have concerns regarding the practical operation of the proposed framework and whether the timing of notifications will be sufficient to consistently achieve the intended outcome. The consultation paper notes that AEMO would seek to notify the market of an LOR-SOC condition using best endeavours by 8:00pm on the scheduling day, and no later than 8:00am on the trading day and subsequently determine the required state of charge that ESRs must achieve by the commencement of the relevant ESRO.



In practice, many reliability risks and low reserve conditions can emerge or materially change throughout the day, rather than being fully identifiable the evening before or by 8:00am of the trading day. As a result, there is a risk that some reliability events may not be captured early enough to enable all ESRs to efficiently charge and satisfy the required state of charge by the beginning of the ESROI. Conversely, there is also a risk that AEMO may be incentivised to declare an LOR-SOC condition conservatively, based on forecast uncertainty, to ensure sufficient time is available for the fleet to respond.

Shell Energy encourages EPWA to carefully consider the potential market impacts of these timing arrangements. If significant volumes of battery charging are required in advance of anticipated reliability events, this may alter dispatch outcomes and market pricing in a manner that does not reflect underlying supply and demand fundamentals. For example, additional charging demand may require thermal generation to start or ramp up earlier than would otherwise occur, potentially increasing system costs without corresponding reliability benefits. While the objective of ensuring ESRs are adequately charged is understood, the framework should seek to achieve this outcome while minimising unintended impacts on efficient market operation.

Proposal 5 – New refund mechanism

Shell Energy does not support the proposed introduction of an additional charge shortfall refund mechanism for ESRs. While we acknowledge the importance of ensuring ESRs maintain sufficient state of charge to meet their obligations during periods of system stress, we do not believe that an additional refund mechanism is necessary where participants are already subject to explicit state of charge obligations and associated compliance consequences including civil penalties.

In our view, the proposed framework risks imposing multiple layers of consequences for the same underlying behaviour. If an ESR operator is required to maintain a minimum state of charge during a declared LOR-SOC event and is already exposed to enforcement action or civil penalty provisions for non-compliance, introducing a separate refund mechanism may create a disproportionate compliance regime that is not applied consistently across all capacity providers.

Shell Energy encourages EPWA to maintain a technology-neutral approach to capacity obligations and compliance arrangements. Market participants providing equivalent reliability outcomes should, as far as practicable, be subject to equivalent incentives and consequences. The introduction of ESR-specific refund mechanisms risks creating an uneven compliance framework under which storage resources are exposed to additional financial penalties beyond those faced by other capacity providers.

More broadly, we consider that existing compliance and enforcement mechanisms should be sufficient to support any new LOR-SOC obligation. Before introducing an additional refund framework, EPWA should clearly demonstrate why existing enforcement tools are inadequate and why a further layer of financial consequence is required. In the absence of such evidence, Shell Energy is concerned that the proposal may increase regulatory complexity and investment risk without delivering a corresponding improvement.

Shell Energy also notes the interaction between this proposal and the ERA's concurrent review of the Offer Construction Guideline. The ERA is currently considering how reserve capacity refund exposure should be treated for offer construction purposes and whether such risks should influence battery charging and discharging offers. It will be important that both processes remain aligned so that Market Participants have clear and consistent understanding of the treatment of LOR-SOC obligations, refund exposure and associated market behaviour. Uncertainty regarding the interaction of these frameworks could undermine investment confidence and create unnecessary compliance complexity.



Proposal 4b - Assisting ESR operators in complying with an LOR SOC obligation

Shell Energy supports Option 1, which would allow AEMO to manage compliance with a declared LOR-SOC condition through the application of constraint equations. In our view, this approach provides a more efficient and transparent means of achieving the underlying reliability objective while minimising operational complexity for market participants. By allowing AEMO to manage the requirement through central dispatch processes, the framework can respond consistently across the ESR fleet without requiring participants to make frequent manual adjustments to market submissions or develop bespoke compliance processes.

Shell Energy considers that a constraint-based approach is also more likely to support reliable and predictable outcomes during periods of system stress. AEMO is best placed to assess system-wide operational requirements and implement controls in a manner that maintains power system security while accounting for broader dispatch considerations. In contrast, approaches that rely primarily on participant rebidding or market submission changes may introduce additional complexity, increase the risk of inconsistent responses across the ESR fleet and create uncertainty regarding compliance expectations.

While Shell Energy supports Option 1, we encourage EPWA and AEMO to ensure there is appropriate transparency regarding the circumstances in which LOR-SOC constraints may be invoked, how minimum state of charge requirements will be determined and how participants will be informed of changing operational requirements. Clear visibility of these processes will assist participants in managing commercial impacts and maintaining confidence in the operation of the framework.

Conclusion

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

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