



29 September 2022

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: Reserve Capacity Mechanism Review Consultation Paper

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to Energy Policy WA's (EPWA's) Reserve Capacity Mechanism Stage 1 Consultation Paper (the Consultation Paper), released on 29 August 2022. The Consultation Paper has been developed for Stage 1 of the Reserve Capacity Mechanism Review (the RCM Review) being undertaken under clause 2.2D.1 of the Wholesale Electricity Market (WEM) Rules. The RCM Review also incorporates the Coordinator's first review of the Planning Criterion under clause 4.5.15 of the WEM 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 more than 185,000 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](#).

### General Comments

Shell Energy understands that feedback from this consultation will be used to inform the development of the Stage 2 consultation paper, with Stage 3 to follow and eventually forming a Rule Change proposal in July 2023.

With the energy transition well and truly underway with more variable renewable energy generators coming online and conventional thermal generators exiting, both permanently and temporarily, it is clear that a review to the RCM is needed. We need to ensure that the mechanism provides certainty to both investors and Rule Participants to draw the appropriate mix of new generation onto the system in an efficient and timely manner to avoid electricity shortfalls or over expenditure.

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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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We look forward to contributing to the review including the further two stages and encourage EPWA to continue to provide sufficient time for stakeholder engagement.

Feedback and responses to consultation questions for each of the 17 design concepts has been provided below under the associated subheadings.

## 1. Conceptual Design Proposal 1

1. Do stakeholders support the retention of the existing peak capacity product?

Shell Energy are supportive of retaining the existing peak capacity product as there seems to be sufficient evidence to continue with this based on the analysis provided. The existing peak capacity product will provide price signals which will inform what new capacity will be required to ensure peak demand and overall energy demand is met.

## 2. Conceptual Design Proposal 2

2. Do stakeholders support not including a product in the RCM to manage minimum demand?

We are supportive of the proposal to not include a product in the RCM to manage minimum demand.

## 3. Conceptual Design Proposal 3

3. Do stakeholders support inserting a new flexible capacity product in the design of the RCM?

Shell Energy are supportive of the introduction of a new flexible capacity product in the RCM to ensure that there is a long term price signal available for sufficient fast ramping capacity. A flexible capacity product will help to address the ramping problem and unplanned Solar PV, especially given that the sustained uptake of distributed photovoltaic (DPV) generation is expected to continue<sup>3</sup>.

In addition, this will encourage incentivising investment in flexible technologies which will be required for future system security.

## 4. Conceptual Design Proposal 4

4. Do stakeholders support not amending the Planning Criterion to include consideration of the volatility of intermittent generators?

As discussed in the Consultation Paper, EPWA considers that regular and predictable periods of high ramp rates can be managed through market processes such as Essential System Services (ESS), and therefore we agree that if there is ramping capability and peaking capability, penalising intermittent generators in the future is unnecessary. As proposed in the third design concept, if a flexible capacity product is introduced, this will address adequate capacity requirements.

## 5. Conceptual Design Proposal 5

5. Do stakeholders support retention of the current two limbs of the Planning Criterion?

Shell Energy is supportive of retaining the current two limbs of the Planning Criterion, requiring sufficient capacity to meet the 10% probability of exceedance (POE) demand, and achieve expected unserved energy (EUE) no greater than a specified percentage of expected demand. Both potential shortfalls in capacity need to be addressed through the RCM.

## 6. Conceptual Design Proposal 6

- 6a. Do stakeholders support amending the reserve margin as indicated in Conceptual Design Proposal 6?

We support amending the reserve margin as this will provide AEMO with more ability to flex the reserve margin up and down.

- 6b. Do stakeholders have any concerns about the proposed amendments to clause 4.5.9(a)(ii)?

We are supportive of the amendments.

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<sup>3</sup> Wholesale Electricity Market Electricity Statement of Opportunities, June 2022, pg 4.



6c. Do stakeholders support commencing the proposed amendments to clause 4.5.9(a)(ii) for the 2023 Reserve Capacity Cycle?

We support the commencement of the proposed amendment in the 2023 Reserve Capacity Cycle and understand that AEMO System Management is strongly seeking this timing.

## 7. Conceptual Design Proposal 7

7a. Do stakeholders support retaining the target EUE percentage of 0.002.

Yes we are supportive of retaining the target EUE percentage of 0.002.

## 8. Conceptual Design Proposal 8

8. Do stakeholders support the proposed third limb of the Planning Criterion to require AEMO to procure flexible capacity?

Shell Energy are supportive of the introduction of a third limb of the Planning Criterion to require AEMO to procure flexible capacity, this aligns with the introduction of a flexible capacity product.

## 9. Conceptual Design Proposal 9

9a. Do stakeholders support the proposed approach to the BRCP?

We are supportive of this approach.

9b. Do stakeholders support the calculation of separate BRCPs for the peak and flexible capacity products?

Shell Energy are supportive of this however, we would like to see this in more detail and are concerned around the level of prescription that may be applied.

9c. Do stakeholders support the proposed factors for the ERA to consider in reviewing the BRCPs?

We are supportive of the proposed factors.

## 10. Conceptual Design Proposal 10

10. Do stakeholders support retaining the ERA as the agency that is to set the BRCP?

We are supportive of the ERA remaining the agency responsible for setting the BRCP, given their independent role and capability.

## 11. Conceptual Design Proposal 11

11. Do stakeholders support the proposed consideration of gross CONE and net CONE for determining the BRCP, as indicated in Conceptual Design Proposal 11?

Shell Energy are supportive of the BRCP being set at the lowest technology, referenced technologies might be different between the flexible capacity and the peak capacity.

We agree that the use of the gross cost of new entrant (CONE) is appropriate in the current environment however, this could impact bidding behaviours (storage facilities required to bid into the market).

## 12. Conceptual Design Proposal 12

12a. Do stakeholders support using the same price curve for peak and flexible capacity products?

We are supportive of the same price being used.

12b. Do stakeholders support the proposed pricing arrangements for the flexible capacity product?

Yes.

12c. Do stakeholders support a 5-year fixed price option for proposed flexible capacity facilities?



Shell Energy are supportive of a fixed price option for proposed flexible capacity, however, with regard to the duration of the fixed price, we consider 5 years to be insufficient and a longer duration fixed price would be more appropriate. There is a considerable reliance on investment in the WEM and a 5-year fixed price may not encourage investor confidence, given that between now and 2030, new capacity is required over a 7-year period to replace retiring assets, yet the fixed price option is only 5 years.

### 13. Conceptual Design Proposal 13

13a. Do stakeholders support replacement of the current Availability Classes with Capability Classes?

We are supportive of the replacement of availability classes with capability classes.

13b. Do stakeholders support the conceptual design proposal for the Capability Classes?

Broadly, we are supportive however, we note that there may be inequity regarding obligations between classes. We have concern around the 14-hour fuel obligation and if this remains unchanged, a generator who cannot demonstrate they meet this obligation could move from class 1 to class 2. In these circumstances, would generators only be required to be available during the Storage Obligation Duration window set for storage and therefore inequitable if generators were required to meet a higher obligation than storage systems. Shell Energy requests clarification on this point if the 14-hour fuel obligation is retained.

13c. Do stakeholders support retaining the 14-hour fuel requirement, with its practical implementation to be considered in stage 2 of the review, with the all-hours availability requirement for Capability Class 1?

Shell Energy encourages EPWA to consider the 14-hour fuel requirement given the current level of large and small-scale intermittent generation on the SWIS, it is highly unlikely that a Scheduled Generator will be required for 14 consecutive hours to maintain reliability. The constrained network access and security constrained economic dispatch in the SWIS further reduces the likelihood of requiring 14-hours of fuel by lowering barriers to entry and enabling generators to compete for network access in real time.

Therefore, we are of the view that the current fuel requirement is excessive and this should be addressed through the RCM review to ensure that generators do not over-procure fuel and transport capacity at a significant cost to the market. We suggest that the 14-hour fuel requirement is not retained and instead replaced with a fuel requirement aligned with the initial intent of 4-5 hours a day.

### 14. Conceptual Design Proposal 14

14a. Do stakeholders support the proposal for AEMO to calculate the availability duration requirement for each capacity year?

With regard to availability duration, if storage is forecast to become the lowest expected capital cost facility according to Conceptual Design Proposal 10, and will therefore set the BRCP, we support AEMO setting the duration requirement however, we note that this should be in conjunction with the ERA.

14b. Do stakeholders support pro-rating the CRC for Capability Class 2 facilities in proportion to the availability duration requirement?

We are supportive of pro-rating the CRC for class 2 facilities proportionate to the availability duration requirement.

14c. Do stakeholders support allowing proponents to request a 5-year fixed availability requirement?

We are supportive of allowing proponents to request a fixed availability requirement, however request that, as above, the duration is insufficient and request EPWA to consider a longer duration.

### 15. Conceptual Design Proposal 15

15a. Do stakeholders support continuing to allocate CRC on an ICAP basis?

We are supportive of retaining ICAP, and believe it works well and drives incentives for facilities to make capacity available in peak times. As stated in the above points, too many changes to the RCM may result in increased risk to investment confidence in the WEM.

15b. Do stakeholders support the conceptual design for treatment of outages?

Shell Energy are supportive of the proposed design for the treatment of outages.



## 16. Conceptual Design Proposal 16

16. Do stakeholders support requiring AEMO to procure expert reports on behalf of participants?

Shell Energy does not support AEMO procuring expert reports on behalf of participants. There are a number of reasons as to why this is not suitable, including:

- Investors require a high level of confidence in the consultants who are developing the expert reports. There would need to be a rigorous process for assessment and engagement of consultants.
- If AEMO was to procure the expert reports, the cost of the procurement would not be equitable as AEMO do not have the same financial drivers as investors.
- There is nothing to suggest that if AEMO were to procure expert reports, that these reports would be more 'accurate'.
- There is a risk that a participant may not meet the CRC application deadline if a consultant failed to prepare the expert report within the required timeframe. Is AEMO liable in this circumstance?

## 17. Conceptual Design Proposal 17

17a. Do stakeholders support using a different methodology to assign CRC to facilities in each Capability Class?

Yes, Shell Energy is supportive of using a different methodology and notes that a method that reduces volatility and uncertainty encourages increased confidence in investment.

17b. Do stakeholders support the proposed methodology to assign CRC to facilities in Capability Class 1?

Yes, we are supportive of the proposed methodology however, we do not support retaining the 14-hour fuel requirement for Capability Class 1 facilities.

17c. Do stakeholders support the proposed methodology to assign CRC to facilities in Capability Class 2?

Yes, we are supportive of the proposed methodology for Capability Class 2 facilities, however, as detailed above at 14(a)(b) and (c), we suggest that CRC for Class 2 facilities be proportionate to the availability duration requirement.

17d. Do stakeholders prefer one of the three identified methodologies for assigning CRC to facilities in Capability Class 3 and what are the reasons for the preference?

We are supportive of using a different methodology and consider that the current Relevant Level Method (RLM) does not appropriately assess performance and as we move through the energy transition, and more intermittent generators enter the market, the inadequacies will be more pronounced, and the current methodology will no longer be fit for purpose.

Therefore, Shell Energy would like to see the alternative methodologies explored, and we welcome further modelling and quantitative analysis in consultation with the relevant working groups and Market Participants.

## Conclusion

In summary, Shell Energy thanks EPWA for its work on the first stage of the RCM Review and appreciates that the majority of issues identified through the RCM Review have been captured in the scope of works.

We look forward to further engagement on Stage 2 of the RCM Review and encourage sufficient time for stakeholder consultation.

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

Libby Hawker

**General Manager – Regulatory Affairs & Compliance**

03 9214 9324 – [libby.hawker@shellenergy.com.au](mailto:libby.hawker@shellenergy.com.au)