



12 December 2022

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

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

Dear Energy Policy WA,

RE: Market Power Mitigation Strategy Information Paper and Exposure Draft

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to Energy Policy WA's (EPWA's) Market Power Mitigation (MPM) Strategy Information Paper (the Information Paper), released on 10 November 2022. The Information Paper includes the final design of the MPM framework and is to be read in conjunction with the Exposure Draft of the MPM WEM Amending Rules. Review of the MPM mechanism forms part of the broader Wholesale Electricity Market (WEM) reform package.

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 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](#).

General Comments

Shell Energy understands that feedback from this consultation will be used to finalise the amending WEM Rules for consideration by the Minister for Energy in January 2023, and if the MPM framework is approved, the new framework will commence alongside the new market on 1 October 2023.

Shell Energy asks that EPWA consider the combined consequences of the review of the Reserve Capacity Mechanism (RCM), the proposed policy principles (high emissions technology penalty), the proposed changes to the civil penalties framework, the recommendations from the Market Effectiveness Report released by the ERA and the MPM Strategy design. We are concerned that the number of policy proposals running concurrently for consultation reduces the opportunity for stakeholders to provide constructive feedback and to properly consider the overall impact and interlinkages across various reforms.

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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Nevertheless, we have provided our feedback on the final design below.

1. Offer Construction Guideline

We understand that short run marginal cost (SRMC) obligations are being replaced through the introduction of the Offer Construction Guideline to provide certainty and clarification around requirements by the ERA and acknowledge that this is intended to provide ex-ante certainty to Market Participants (MP).

Shell Energy requests adequate consultation be undertaken on the Offer Construction Guideline given the importance of this component of the MPM framework. Consideration must be given to the level of prescription contained in the Offer Construction Guideline, noting that a guideline will be limited in its ability to capture all circumstances and costs that must be recovered in offers.

Additionally, as part of the requirements for offer construction, the guideline will set out what information it expects a MP to capture for internal record keeping. This may require MPs to upgrade systems and processes that they already have in place and therefore we request sufficient time is given to MPs for any new internal system/administrative requirements to be implemented.

2. Renewable technology

Shell Energy notes that as more renewable generation enters the market, the MPM framework will need to be designed in a way that provides certainty for MPs to adequately recover their costs, and also be flexible enough to support future renewable technology projects and allow for this framework to work alongside other major revenue streams in the market such as the Reserve Capacity Mechanism (RCM). It is crucial to ensure that the MPM framework is considered alongside any changes that could occur to market settings following the review of the RCM.

3. Exposure Draft

Clause 2.16C.10

Where the Economic Regulation Authority has determined under clause 2.16C.5 that a Market Participant has made an Irregular Price Offer, the Market Participant will be deemed to be in breach of clause 2.16A.1

This clause states that a MP is in breach if they make an Irregular Price Offer even if the offer has not resulted in an inefficient market outcome. Please amend this clause to include the point that for a breach to occur, the Irregular Price Offer must result in an inefficient market outcome to reflect what is stated in the Information Paper.

Clauses 2.16C.6, 2.16C.9 and 2.16E.1

The above clauses refer to an 'inefficient market outcome' however, there is no guidance or information included in the Exposure Draft as to the ERA's determination of an inefficient market outcome. Please clarify how the ERA intends to determine there has been an inefficient market outcome and if this has not yet been considered, we encourage further consultation on this.

Conclusion

We appreciate the opportunity to provide feedback on the final design of the MPM framework and encourage EPWA and the ERA WA to undertake thorough consultation on the Offer Construction Guideline and any other outstanding elements identified through this consultation process.

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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