Shell
ENERGY

28 September 2021

Sara O'Connor
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Submission by email: publicsubmissions@erawa.com.au

Dear Sara,

RE: Discussion Paper – Electricity Generation and Retail Corporation regulatory scheme: 2020 effectiveness review

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Economic Regulation Authority on the Discussion Paper – Electricity Generation and Retail Corporation regulatory scheme: 2020 effectiveness review.

About Shell Energy in Australia

Shell Energy is Australia's largest dedicated supplier of business electricity. We deliver business energy solutions and innovation across a portfolio of gas, electricity, environmental products and energy productivity for commercial and industrial customers. The second largest electricity provider to commercial and industrial businesses in Australia[1], we offer integrated solutions and market-leading[2] customer satisfaction, built on industry expertise and personalised relationships. We also operate 662 megawatts of gas-fired peaking power stations in Western Australia and Queensland, supporting the transition to renewables, and are currently developing the 120 megawatt Gangarri solar energy development in Queensland. Shell Energy Australia Pty Ltd and its subsidiaries trade as Shell Energy.

www.shellenergy.com.au

Shell Energy is supportive of the ERA's proposal to reduce the maximum buy sell spread that Synergy can utilise to price its offerings for the suite of Standard Products which Synergy are required to offer. Shell Energy notes that the reduction of the maximum buy sell spread from 20% to 15% has not resulted in any buy transactions in 2020. There was in fact no increase in the number of standard product transactions in 2020. Given the ERA analysis that Synergy could make a margin with a spread lower than the current regulated spread, Shell Energy strongly supports the 15% be lowered to 10% for Quarterly and 5% for Calendar/Financial Year products. Shell Energy is also supportive of using the updated Deloitte Method to inform the setting of the new maximum spread.

There are several expected benefits to a lower regulated spread:

- Removal of a significant barrier to providing effective price discovery for retailers.
- Reduction of the cost of hedging for Market Participants, providing the advantage of reduced costs to consumers.
- Increased liquidity in the bilateral contracts market.
- A greater effectiveness overall of the EGRC scheme, as seen from the market's point of view.

These benefits all align with the WEM objective of minimising the long-term cost of electricity supplied to consumers. As informed by the ERA's analysis, a lower buy sell spread will still allow Synergy a one standard deviation chance to profit from a standard product trade. Further, this will increase the probability of a greater volume of trades bought and sold under these arrangements leading to increased overall revenue for Synergy.

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[1] By 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 2011-2020.

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Shell Energy is also supportive of the publication by Synergy of more detailed periodic financial reports, in particular transparent reporting for each business unit. This will lead to greater transparency and provides some confidence to the market that the EGRC scheme is functioning as it was intended to and further to this, that there is no cross subsidisation between the Wholesale and Retail businesses. This information would increase the effectiveness of the EGRC by allowing other market participants to be more comfortable in offering standard products into the market.

Another improvement to the EGRC scheme would be the introduction of products that cover a longer time period, as well as non-flat options. As noted by the ERA, two thirds of the products recently sold were flat transactions. Lowering the maximum buy sell spread and increasing the liquidity in the market would allow these products to be introduced. Increasing the number of counterparties that can provide futures products will also benefit the market although it is recognized that there is a lack of providers other than Synergy.

If you have any queries in relation to this submission, please don't hesitate to contact me on 08 9338 6659. I am happy to meet in person with the ERA to discuss this submission further.

Yours sincerely

[redacted]

Wendy Ng
GM Physical Trading West