17 February 2023

Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Lodged email: info@erawa.com.au

Dear ERA WA,

RE: Market Power Mitigation Offer Construction Guideline Draft Report

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Economic Regulation Authority WA's (ERA's) Market Power Mitigation (MPM) Offer Construction Guideline (the Guideline), released on 23 December 2022. We understand the Guideline is to provide guidance to Market Participants (MP) on how to construct offers and how the ERA will assess these offers.

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 Australia[1], Shell Energy offers integrated solutions and market-leading[2] 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 has recently acquired a 50% share of Kondinin Energy Pty Ltd (Kondinin) which will be our first West Australian renewables development. The centrepiece of the Kondinin project is the Kondinin Wind Farm, a wind development which would generate approximately 230MWs, across two stages, into the SWIS. Kondinin also holds approvals to develop a 80MWs solar farm and ~60MWs BESS which comprise stages three and four of the Kondinin project.

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 form part of the Market Power Mitigation framework and this guideline concerns the offer construction obligation in clause 2.16A.1 of the draft WEM Rules.

Shell Energy is concerned that the Guideline offers no certainty to enable market participants to recover reasonable costs from the energy markets in the WEM as it is not possible for a guideline to capture every circumstance and cost that could be recovered in offers. We suggest that caution is taken in being overly prescriptive as this could result in uncertainty, complexity and increased costs for existing MP's.

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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 2011-2021.

We note that MPs still haven't received all the required information for the MPM Framework to provide fully informed and considered comments and potential concerns. It would be more effective if stakeholders had opportunity to review the Market Power Monitoring Protocol and the Trading Conduct Guideline alongside the Guideline and new framework proposal.

Feedback on the Guideline has been provided below.

Consultation Questions

1. **What additional information would participants need to inform offer construction:**
   a. Shell Energy request clarification for the calculation of Avoided Start costs inserting a minimum price offer restriction. At section 4.4.2 and the examples that follow, it suggests the ERA is limiting the minimum price offer for generators attempting to avoid decommitment. We request clarification as to whether a generator could still offer below this calculated point to remain online (i.e submission of -$1000/MW, similar to current practice).

2. **What other costs do we consider valid in the efficient cost for a generator or electric storage resource:**
   a. We request that the ERA clarify risk margins for operational risk. The information presented in 4.5, suggests references to a risk margin simply cover where forecast run times are not met (i.e. costs aren't recovered due to changing market conditions), however a major inequity in this market is that peaking generators that seldom run, rarely incur Forced Outage refunds or experience unexpected mechanical failures. The nature of operations often results in the highest risk of mechanical failure occurring when the generators are operating at or near maximum output. Therefore, we would expect a risk margin for operational risk to be included in efficient costs (i.e. 0% operational risk for 0MW output and an increasing operational risk margin as output reaches maximum MW). This can be justified by analysing historic performance.
   b. We request that the ERA clarify compliance related costs. We note that some compliance costs are sunk in respect to record keeping and general compliance (internal offer guidelines). Others such as compliance effort associated with operating incidents such as deviation from dispatch instructions only occurs if the generator is online and therefore is a variable cost. It would be useful if the ERA could outline a position on these costs, other than leaving it to the assumption that they are 'other' costs which may be included but will require justification.

3. **What other offer construction examples would stakeholders find useful to include in the guideline?**
4. It would be useful for the ERA to outline:
   a. that given the nature of the gas market in the WEM, where the majority of volume is contracted and only small volumes transact in an opaque relationship-based market, how should generators allow for incorporating small volumes of spot gas (with varying levels of certainty) into larger volumes of contracted gas;
   b. does the 'sunk' nature of Take or Pay volumes change when considering purchase of supplementary lower cost spot gas; and
   c. how the opportunity cost of LGC for renewables should be incorporated into offers where contract pricing differs considerably (i.e LGC prices in and out of the money)?

5. **Record keeping**

   Section 7.1 and 7.2 of the Draft Report lists the records that MPs must maintain and provide to the ERA if requested. The Guideline references "These records include, but are not limited to:…" and subsequently include a broad list of record examples, concluding with "any other information relevant to the governance procedures…". We question how far this extends and are concerned that record keeping to this level could lead to perverse outcomes such as increased regulatory and administrative burden. Shell Energy requests that more detail is provided here on the specific "other" records that the ERA requires MPs to maintain, including timing, frequency and level of detail as MPs may need to amend internal systems to align with the records required.

6. **Compliance costs**

We note that there has been a significant and sustained increase in the compliance costs associated with participation in the WEM. We also note that the reserve capacity price has not been adjusted to incorporate a compliance cost, and given these costs do not change with output, they cannot be included in generator offers. We request that the ERA gives consideration to this point and the increased compliance costs for MPs, noting that this may be addressed in the documents that are still in development as outlined below.

We look forward to the release of the revision of the compliance strategy document by the ERA that has been referred to in Figure 1 of the Guideline. We hope that this will provide MPs with the level of compliance monitoring that will be undertaken in alignment with the new compliance framework for the WEM.

Conclusion

We appreciate the opportunity to provide feedback on the Guideline and look forward to reviewing the associated Market Power Monitoring Protocol and the Trading Conduct Guideline when released by the ERA, noting that it is most helpful if these documents can be considered alongside each other.

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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