



3 October 2024

Economic Regulatory Authority  
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## RE: Draft Offer Construction Guideline and Draft Trading Conduct Guideline

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Economic Regulation Authority WA's (ERA WA's) Draft Offer Construction Guideline and the Trading Conduct Guideline (the Guidelines), both released on 5 September 2024. We understand these documents form part of the updated General Trading Obligations and Materiality Tests following the release of Energy Policy WA (EPWA) draft amending Wholesale Electricity Market (WEM) rules under the FCESS Cost Review. These Guidelines will provide guidance to market participants for their offer construction and assessment of offers and will provide guidance for market participants trading conduct and compliance, respectively.

### 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<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 form part of the updated General Trading Obligations and Materiality Tests and concerns the offer construction obligation in Clause 2.16C.5 of the draft

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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.



WEM Rules<sup>3</sup>. As outlined in our previous submissions to the ERA's consultation on the previous releases of the Guidelines (February 2023 and July 2023) Shell Energy is concerned that the Guidelines do not enable market participants to recover reasonable costs from the energy markets in the WEM<sup>4</sup>. The proposed changes currently under consultation have not alleviated this concern.

Shell Energy considers that insufficient time and information has been provided to market participants to understand and apply the changes in the updated Guidelines given that this is critical to market participants compliance with WEM rules. Shell Energy representatives attended a stakeholder workshop held by the ERA on 19 September 2024 where it was outlined that the ERA intends to have updated versions of the Guideline and Trading Conduct Guideline completed by 20 November 2024, which is when EPWA's proposed WEM Rule changes are expected to come into effect. We appreciate that the timeline for the Guideline changes aligns with EPWA's proposed WEM Rule changes coming into effect. However, multiple concerns were raised by stakeholders around the timeline in the workshop held by the ERA on 19 September 2024. Furthermore, the release of new information relating to positions taken by the ERA in the Guidelines was only released to the market on 19<sup>th</sup> September 2024, halfway through the consultation period. Ideally this new information would have formed part of the initial information set available to market participants to assess the Guidelines.

Shell Energy considers the detail and quality of the analysis presented at the 19<sup>th</sup> September 2024 workshop was insufficient for the ERA to justify the case for change relating to Contingency Reserve Raise costs, a decision that impacts settlement channels to the magnitude of approximately \$100 million per annum in the WEM.

## Efficient Variable Cost

Shell Energy agrees with the ERA's definition of an Economic Price Offer being an offer not greater than the sum of all Efficient Variable Costs (EVC) and that a market participant including only EVC will incur no operating losses if its facility is not dispatched when the market clearing price doesn't reach its offer price. Furthermore, Shell Energy believes that, by extension, a market participant including only EVC would incur no loss, or gain no profit, if its facility is the marginal producer (i.e. the market clearing price matches its offer).

## Contingency Reserve Raise Costs

Based on the above view of EVC, Shell Energy contends that Contingency Reserve Raise costs vary with output and should therefore remain a component of the Economic Price Offer according to the definitions included in the guideline regarding Efficient Variable Cost. There is zero Contingency Reserve Raise cost attributed to a generator if it is not producing energy and meets the ERA's definition of an efficient cost at a participant level. For a producer to incur no loss from increasing generation it must reflect Contingency Reserve Raise costs in its offer.

Shell Energy understands that the proposal is intended to improve market efficiency, however it is challenging to see this benefit. The consultation document observes, "ERA's proposal may prevent some generators from recovery (sic) their runway FCESS costs". We believe that creating a market where participants cannot recover costs not only threatens the commercial viability of existing energy assets in the WEM but could also discourage future investment. We therefore recommend that the ERA retain the Contingency Reserve Raise cost as an allowable component of the Economic Price Offer.

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<sup>3</sup> Energy Policy WA has released the Exposure Draft of FCESS Cost Review Amendments for consultation ([www.wa.gov.au](http://www.wa.gov.au))

<sup>4</sup> Monitoring the new WEM - Economic Regulation Authority Western Australia ([erawa.com.au](http://erawa.com.au))



## Independent Expert Requirement

Shell Energy does not support the proposal to require market participants to acquire independent expert advice on the allocation of startup costs across runtime, number of starts, and production. This requirement is not contained in the WEM Rules and we see little value being added by an independent expert with less detailed understanding of each generator than is possessed by the operator of the plant. Market participants have significant obligations under the WEM Rules regarding assumption detailing, as well as calculation and record keeping obligations. The addition of a requirement for expert advice provides no additional governance certainty or transparency. Instead, the requirement adds costs to market participants and is an onerous additional administrative burden. It is also likely to be unworkable in practice due to the evolving calculation of EVC. Shell Energy recommends removing the requirement from the draft guidelines.

## Conclusion

We welcome the opportunity to discuss our submission further. Please contact [REDACTED] [REDACTED] regarding queries on this submission.

Your sincerely

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