



7 February 2023

Leonie Horrocks
Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
Canberra ACT 2601

Dear Ms Horrocks

RE: Incorporating an emissions reduction objective into the national energy objectives

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water's (DCCEEW or 'the Department') consultation paper on proposed legislative changes to incorporate an emissions reduction objective into the national energy objectives.

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 recognises Energy Ministers' agreement to introduce an emissions reduction objective into the national energy objectives. We appreciate the Department engaging with stakeholders to understand the implications of the changes and assess whether the proposed changes appropriately achieve the aims of the reform.

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.

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The consultation paper indicates that Officials' preference is to insert emissions reduction as an additional component to be balanced within the existing economic efficiency framework. We agree that incorporating the emissions reduction objective into the economic efficiency framework would be the most effective way to integrate an emissions reduction concept into energy market bodies' decision-making processes. The existing economic efficiency framework is well understood by both the market bodies and stakeholders and as such, should continue to remain the driver of decision making. Adding emissions to sit alongside the existing components of price, quality, reliability, safety and security is therefore the most preferable approach.

The consultation paper also refers to using the existing framework as enabling a level playing field for all components of the objectives. We agree that a level playing field is an important consideration. No single objective should outweigh the others, and each individual component should be balanced against the others to determine the overall most efficient approach. As such, we consider that the proposed legislative drafting may need reworking to ensure this remains the case.

Given the structure of the objectives, we have identified a risk that the emissions reduction objective could be interpreted as having equal weight to the sum of the components, i.e., price, quality, safety, security and reliability. It is the presence of emissions reduction as a separate clause to the other components that creates this risk. We consider it preferable for the legislation to clearly state that each individual component deserves equal treatment, or to add emissions reduction alongside the other components, with a subclause to spell out what emissions reduction represents. We note that Officials considered this option as discussed in section 3.3 of the consultation paper.

The consultation paper asks whether market bodies should provide guidance to stakeholders on how they will interpret the proposed revised energy objectives. Shell Energy believes that update guidance and advice will be important given the potential scale of this change. We consider that any guidance should be developed in consultation with stakeholders rather than the market bodies simply determining how it will apply. Shell Energy would like to see a defined consultation process that allows stakeholders to provide suggestions and respond to market bodies' proposals for how the emissions reduction objective will be incorporated into workstreams as a whole and weighted against the other components of the energy objectives.

Reference of Australia's greenhouse gas emissions reduction targets

The draft legislation sets out the policies that represent Australia's emissions reduction targets. Including legislated targets at both the Federal and state or territory level is a logical step. Yet, Shell Energy disagrees with the inclusion of public commitments 'stated publicly as a matter of policy' in the draft legislation. Policies can and do change regularly through election cycles and through general evolution of both government and opposition policies. There is inherent uncertainty in factoring in publicly stated policies that have no basis in legislation given the potential for these to change over time. We believe the inclusion increases the risk for decision-making processes given that publicly stated policies could change rapidly if an election occurs midway through a rule change consultation or Regulatory Investment Test - Transmission (RIT-T) for instance. In the latter case, it could dramatically change the preferred option part way through a process. Including publicly stated policies will enhance regulatory risk and may impose costs on the market if modelling must be redone or reports redrafted to a sudden change in announced but not legislated policies.

We also consider there is a risk including publicly stated policies could allow governments to avoid the legislative process in setting emissions reduction policies for the electricity sector. Governments could publicly commit to a target and allow energy market bodies to then determine how to give effect to the policy through energy market rules or regulatory investment tests. This does not provide the kind of regulatory certainty that supports investment.

We share a similar concern with regards to the inclusion on international agreements. Targets and commitments negotiated through a treaty process such as the United Nations Framework Convention of Climate Change -



e.g. the Paris Agreement-are binding under international law. However, the phrase “international agreement” could include non-binding agreements such as memoranda of understanding. We consider that only those binding under international law should be included for consideration as part of the national energy objectives.

Interactions between gas and electricity markets

Shell Energy supports the additional change to alter the wording in the national energy objective from “consumers of electricity” in the National Electricity Objective (NEO) and “consumers of natural gas” in the National Gas Objective (NGO) to consumers of energy. We share the views expressed in the consultation paper that as the electricity and gas markets become increasingly intertwined and interdependent it will be important to factor in the impacts of changes in either gas or electricity markets to consumers across both fuels.

Additionally, we understand the rationale not to extend this change to referring to “supply of energy”. Were this change made we would struggle to see any difference in the treatment of either natural gas or electricity under the NGO and NEO respectively. We consider there should be a distinct objective for each, and as such, retaining “supply of gas” and supply of “electricity” is a logical decision.

Transitional arrangements

On the issue of transitional arrangements, Shell Energy accepts the need to have some transitional arrangements for processes whose timeframes overlap with the introduction of the revised objectives. The initial suggestion of allowing market reviews to incorporate the revised objectives is sensible. Yet, the consultation paper also indicates that the market bodies should have broad discretion to consider the revised objectives as they see fit.

The greater the discretion afforded to market bodies to factor in the revised objectives, the greater the risk and uncertainty for the market. While we accept some discretion is necessary, we believe there are some reforms that should be assessed purely under the existing objectives. Transmission Access Reform is one such example. Participants have engaged with the Australian Energy Market Commission (AEMC) and Energy Security Board (ESB) for several years on the design of the policy. Shifting the goalposts at this stage would undermine the work that has already gone into the design phase.

Finally, Shell Energy appreciates the explanation of how the market bodies’ decision processes may be affected by the inclusion of an emissions reduction component in the national energy objectives. We wish to highlight the potential for double counting to occur in some processes as a result of the new emissions reduction component. In the example of the Integrated System Plan (ISP), emissions reduction targets are already incorporated in generation pathways, with emissions targets and policies impacting the choice of generation pathways in the modelling. Therefore, if the emissions reduction component of the energy objectives is then applied over and above this, it could over-emphasise the impact of emissions reduction targets. Similarly, RIT-T processes assume generation will be built in part based on emissions reduction policies. There is a risk that the RIT-T process could then double count the benefits associated with emissions reduction policies. As such, the Australian Energy Regulator (AER) will need to take care in assessing RIT-T and RIT-D applications to ensure that emissions reductions are not counted twice by project proponents.

Conclusion

Shell Energy considers that the proposed legislative changes to incorporate emissions reduction into Australia’s national energy objectives are a workable solution. Some relatively minor changes are needed however, to ensure that unintended consequences do not occur and to enhance regulatory certainty. Shell Energy considers the following changes would improve the draft legislation:

1. Only legislated policies and international treaties should be considered under Australia’s emissions reduction targets;



2. The legislation should explicitly state that all components of the national energy objectives have equal weight;
3. Market bodies' discretion to factor in the revised objectives to ongoing processes should be limited; and,
4. Market bodies should work alongside stakeholders to develop guidance on how they will interpret the revised objectives.

For more detail on this submission, please contact Ben Pryor, Regulatory Affairs Policy Adviser (ben.pryor@shellenergy.com.au or 0437 305 547).

Yours sincerely

[signed]

Libby Hawker
GM Regulatory Affairs and Compliance