Shell ENERGY

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New South Wales Department of Climate Change, Energy, the Environment and Water

Submitted electronically: energy.consult@dpie.nsw.gov.au

RE: Orderly Exit Management Framework Consultation Paper

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 also operates the 60MW Riverina Storage System 1 in NSW. 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.

Key Points made in this submission:

- Shell Energy is concerned that government contracting with an SSGU may quarantine the contract volume from the market and limit market liquidity during a period when retailers may be exposed to RRO obligations.
- We suggest a solution to this issue whereby governments facilitate a process providing access to the contract volume whilst retaining credit risk against the SSGU.
- We note that the detailed commercial information to be provided prior to voluntary negotiation is inappropriate and should not be required until the mandatory negotiation stage.
- We believe that there should be clear separation between the assessment stage and the negotiation stage.
- Shell Energy supports the cost recovery approach but support increased transparency. We would prefer that costs are presented to consumers as a separate item from other network costs.

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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.

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General Comments

Shell Energy is supportive of the proposed framework to manage orderly exit of system significant generating units (SSGU) from the NEM. Whilst the consultation paper appears to intend the application of the framework only to thermal generators specifically, we see no reason why this framework could not be applied on a more technology neutral basis. This could be beneficial to consumers as the type of generation that becomes system significant over the course of the transition may change but the impacts from a reliability and system security perspective will be similar. We also expect that similar commercial considerations will apply to all generation and storage technologies which makes this framework applicable beyond only thermal generation.

Market Liquidity

A key concern for Shell Energy is the impact of the framework on market liquidity, ie availability of contracts for hedging market price risk. We note that the consultation paper proposes governments will ultimately contract with the SSGU to provide price certainty and appropriate incentives to the generator. We are concerned that this will quarantine a significant volume of firm contracts from being made available to market participants. Since it is highly probable the period in question will have been assessed by AEMO as a reliability gap period there may be obligations on retailers to source contracts to cover their demand under the retailer reliability obligation provisions. Under the framework, the SSGU that is required to remain in service beyond its proposed exit date will have been assessed as the most economically efficient solution to the reliability gap. Shell Energy therefore considers that, to keep costs low for consumers and limit risk to retailers, it is necessary that the framework specify that governments facilitate contract sales to the market from the government purchased contracts from the SSGU.

There are a number of ways to incorporate contract sales from either the government or the SSGU to retailers within the framework. Shell Energy's preferred approach is that the relevant government facilitates a tripartite agreement between the SSGU and interested retailers which would see the relevant government take on credit risk for the SSGU and retailers. The government would retain control of the negotiated contract price outcome with the SSGU but would then facilitate a process to provide access to the contract volume by retailers or other market participants. It may be optimal to run an auction process to allocate this contract volume to interested parties to ensure that prices reflect the market's view of risk during the relevant period.

We note that, to avoid perverse outcomes, the SSGU owner must be excluded from participating in any process to allocate contract volume by the relevant government. This is a reasonable exclusion as the SSGU owner will have, by signalling their intention to close the plant early, indicated that it has no requirement for the volume.

Liquidity concerns also inform our negative view of the alternative "shielded loss and gain" option outlined in Appendix 1 of the consultation paper. We note that this approach would effectively prohibit the SSGU from being able to offer enough contracts to satisfy demand due to the obligation to pay 75% of positive cash flows to the OEM fund. Shell Energy therefore strongly favours the preferred swap and cap financial contracts approach as presented in the consultation paper, which is a financial hedging approach between the relevant government and the SSGU, but with an extension to formalise access to contract volume to market participants as described above.

Information Provision

Shell Energy considers that some of the prescribed information provision requirements for an SSGU prior to the commencement of voluntary negotiations are unreasonable. Specifically, information relating to costs, revenues, hedge levels and approach, fuel contract details, insurance, capital expenditure, budgets and other financial information should not be required to be provided to the AER or energy ministers as part of the voluntary negotiation stage. These details may be used to calculate a cost reflective price and are a significant

negotiating advantage to the government. We do note that it is entirely reasonable to require provision of this financial and commercial information in stage three for the purposes of calculating a regulated outcome.

We contend that the relevant information asymmetry at stage two is primarily around technical operational considerations. This is because the government must be able to determine if it is technically possible for the plant to be required to continue operating safely. The asymmetry of information around expected future earnings is exactly the subject of negotiation at stage 2 and asset owners should not be required to reveal commercial information at this stage. This would be a highly unconventional approach to negotiation. Whilst we oppose the provision of commercial/financial information at this stage we are nevertheless supportive of requiring the provision of information relevant to determining the veracity of any claims being made about the technical capability of the SSGU.

Process Comments

Shell Energy notes that the current proposed Stage 2 of the framework incorporates confirmation of a potential reliability issue, the search for viable alternatives as well as the voluntary agreements processes. We consider this approach to be suboptimal. The framework should be clear that voluntary agreement process should only be entered into following completion of the confirmation of a potential reliability issue followed by the assessment of viable alternative solutions. Whilst we recognise that the viability of any alternatives may depend on the potential cost of a voluntary agreement, we see more benefit from a clear separation between the two processes. We consider that, to protect consumers from unnecessary costs, no material costs or effort should be expended on voluntary agreement formation or information gathering until confirmation of a potential reliability issue and viable alternative measures have definitively been ruled out.

We propose an approach that would see stage two being contained to include the system needs assessment and consideration of alternative service provision. Voluntary negotiation for continued operation of the SSGU would become a separate stage 3 to signal a clear separation between the processes. Subsequent stages would remain the same but numbered incrementally as stage 4 and stage 5.

Cost Recovery

Shell Energy supports the proposed cost recovery approach using the OEM fund as outlined in section 11 of the consultation paper. However, we note that transparency of these costs to consumers should be a key principle in the framework. We therefore recommend that the OEM fund costs should be a separate, additional charge in addition to the existing TUOS charges. Simply including the OEM costs in the TUOS charge amount as proposed does not provide transparency to consumers.

For more information or questions regarding this submission, please contact Peter Wormald (peter.wormald@shellenergy.com.au)

Yours sincerely

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