Shell ENERGY

14 September 2023

Lisa Shrimpton
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Dear Ms Shrimpton

RE: Unlocking CER benefits through flexible trading

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Unlocking Consumer Energy Resources (CER) benefits through flexible trading rule change discussion paper ("the 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 more than 185,000 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 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 appreciates the deeper analysis the AEMC has conducted on the rule change proposal. We support the AEMC's draft position not to extend flexible trading arrangements (FTA) to small customers at this time due to the "implementation and cost challenges associated with applying consumer protections, technical and market operational considerations and also competition issues".[3] While we strongly agree with the AEMC's rationale for not including small customers at this time, we believe the same rationale extends to large customers.

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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.
[3] AEMC, *Unlocking CER benefits through flexible trading discussion paper*, August 2023. p 32.

The issues we raised in our submission to the consultation paper still hold true even if only large customers are included. There are substantial costs involved with changing billing, forecasting and settlement systems to cater to customers engaging with FTA. These costs would be incurred even if we did not want to offer FTA services, and costs will be similar whether it impacts 1000 large customers or 100,000 large and small customers.

We also note substantial overlap between this rule change and the scheduled lite rule change which the AEMC is also considering. In our view the potential benefits that can be achieved through coordinating the flexibility of CER can also be delivered by the scheduled lite rule change. Given the risks involved with the FTA rule change and the costs it would impose on participants, we see that the scheduled lite rule change may present a better option for the AEMC to pursue. Scheduled lite may be able to deliver a similar level of benefits to the market at a lower overall cost and with lower risks than FTA.

We also recommend that to encourage increased demand response, more methodologies be developed to allow for increased participation in the Wholesale Demand Response Mechanism (WDRM). This, alongside the potential scheduled lite rule change, could provide further avenues to deliver benefits from CER to the market in a lower cost and lower risk manner. One of the key benefits of the WDRM's design is that it largely makes a retailer agnostic to whether their customer participates in the mechanism. The use of the reimbursement rate and baseline reduces the hedging risks to the customer's FRMP from demand suddenly dropping due to WDRM participation. The risks are not eliminated but they are far lower than what would exist under AEMO's proposed FTM2 model.

Further, we consider the rule change is unnecessary given the Small Generation Aggregator (SGA) and embedded network arrangements exist to adequately address the issue for large customers. It would be in the longer-term interests of the market for this rule change not to be made unless further review and consideration of the issues involved reveals a pressing need for change.

Small customers

Shell Energy supports the AEMC's position not to extend FTA to small customers at this time. As we argued in our submission on the consultation paper, there are a range of issues relating to consumer protections including access to hardship schemes, concessions, the impact on default prices and risks of consumer complaints. In addition, AEMO's proposed approach to levy all network costs on the primary FRMP represented a major risk to retailers.

Large customers

The proposed FTA model exposes FRMPs to significant risks of load being shifted to or from the secondary connection point without warning, and potentially in conflict with market signals. These risks would be heightened at certain times such as during reliability gap periods under the Retailer Reliability Obligation (RRO) or during times of high prices, when a customer may choose (or be directed) to consume from their primary FRMP as arrangements with the secondary FRMP may be to switch off at times of high prices.

This is not an issue of competition. It is an issue of a level-playing field, where the primary retailer faces all responsibilities (including network tariffs based on the rule change request) and risks associated with peaky, unpredictable load while a secondary party takes on a proportion of load that suits their operations. The risks are enhanced, and are in fact almost unmanageable, on the primary retailer if load can be shifted back to the primary FRMP at will. For instance, the primary retailer could be at risk of breaching the Retailer Reliability Obligation (RRO) if the secondary retailer's approach is to shift load back to the primary FRMP during a reliability gap period. The primary retailer could also be exposed to severe financial risks if the secondary retailer's approach is to offer a pool-price pass-through arrangement but shift load back to the primary retailer whenever prices exceed $1000/MWh for example. Conversely, the secondary FRMP could shift load back to itself at times of negative prices.

These kinds of risks cannot be easily managed. FTA operating in these ways would add no net benefit to the market in such examples but would merely push risk to the primary retailer (and by extension their customer base). Issues like these were the reason that the RRO opt-in provisions require parties opting-in to opt-in all connection points at a site. It is also the same reason that customers on pool-price pass-through arrangements are unable to participate in the Wholesale Demand Response Mechanism (WDRM).

We add that there may be little that can be done in the Rules to prevent a customer (or the secondary FRMP) from engaging in such activity. The National Electricity Rules are unable to impact how energy consumers wire up their premises, and so the risk of load shifting from the secondary FRMP to the primary FRMP will exist regardless of the intent of the Rules. Similarly, a secondary meter could be temporarily deactivated by the secondary FRMP ensuring all load goes through to the primary FRMP.

In summary, the reform would create significant risks for retailers and their wider customer base, while delivering all benefits to the secondary retailer and the individual customers participating.

The discussion paper has also failed to discuss one of the key elements that we and other stakeholders highlighted: how network tariffs would be allocated across the primary and secondary FRMPs. In our submission, we highlighted that AEMO's proposed solution of allocating all costs to the primary FRMP resulted in all credit risk for network tariffs being with the primary FRMP, in addition to impacts on billing systems due to a mismatch between network consumption and energy consumption for billing purposes. Further, we explained that a secondary FRMP only considering wholesale market outcomes may not act in the best overall interests of a customer who may be exposed to a set of network tariffs that would reward different behaviour. A FRMP responsible for all load at a site would be better placed to consider the overall benefits for a customer.

It is disappointing that the discussion paper has not engaged in the detail of this issue, and instead looks to pass the issue on to DNSPs to solve by querying whether making the FTA rule change would incentivise DNSPs to develop new tariffs. In our view, a rule change isn't required for DNSPs to develop and test new tariffs that may better reward the flexibility of CER. There are already examples of networks developing new forms of network tariffs that aim to unlock the market benefits of CER. South Australia Power Networks (SAPN) has developed a 'solar sponge' tariff to encourage increased electricity consumption in the middle of the day when solar production is high.[4] While Ausnet is trialling tariffs to support EV charging and to soak up solar generation in the middle of the day.[5] The introduction of network export tariffs represents another option that may encourage some CER to be used in ways that deliver market benefits and benefits to the consumer.

Embedded network arrangements

We dispute the notion that change is required simply because the embedded network framework was not intended to be used for the purposes of the small generators aggregator (SGA) framework. If the embedded framework functions to allow customers to enter into SGA arrangements with a party other than the customer's retailer, then it is reasonable for this to continue. AEMO's rule change request does not provide any clear examples of why the embedded networks framework is unsuitable or poses risks in being used to deploy SGA. AEMO's rule change request cites some problems regarding consumer protections, and access to rebates, concessions, dispute resolution services and retail market competition. However, these issues are relevant almost exclusively for small customers, which the AEMC proposes excluding from FTA. Therefore, we fail to observe a clear reason that the embedded networks framework is unsuitable for SGA. Indeed, current arrangements allow

[4] SAPN, Time-of-use Network Tariffs. Last accessed 16 August 2023.

[5] AusNet Sub-Threshold Tariffs https://www.aer.gov.au/system/files/AusNet%20Services%20-%20Tariff%20trial%20notification%20-%202023-24.pdf

for the separation of generation and load, allowing customers to separately value generation without imposing the same degree of risks on a FRMP that FTA would create.

AEMO has not adequately explained its concern about the continued use of the embedded networks and SGA framework to separately value flexible CER. If there are genuine concerns with the use of the embedded network framework, this should be set out clearly and examined to assess whether there are alternative approaches, or whether changes to the embedded network framework could achieve the market objectives more efficiently. For example, would the scheduled lite mechanism solve any issues that may relate to visibility or dispatchability of CER under embedded networks? If an alternative approach is available that can deliver the desired results without creating substantial additional costs or risks to market participants, then Shell Energy considers that would be a better option for the AEMC to pursue.

Energeia cost and benefit analysis

Shell Energy has concerns with the modelling to be conducted by Energeia to inform the draft determination. Chiefly, our main concern is that the benefits to be assessed do not align to what is raised in the AEMC's discussion paper. Energeia proposes to assess the benefits associated with residential and small business loads, despite the fact that the AEMC at this stage proposes not to extend FTA to small customers. This will distort the benefits that the rule change offers.

Further, we note that the benefits will also exclude large customers because "upon discussions with the AEMC, industrial consumers were deemed out of scope as they are already strongly involved in the market with regards to their flexibility."[6] In our view, this calls into question the need for the rule change in the first place. With the AEMC proposing to rule small customers out and arguing that commercial and industrial customers are sufficiently engaged, the scope of customers the proposed rule change would impact may not be sufficient to justify the costs and risks involved – especially when there is an existing framework within the embedded network and SGA provisions that can adequately address the issue for commercial and industrial customers.

Shell Energy also has concerns that the modelling approach does not factor in the full range of implementation costs associated with the rule change. This is likely to distort how the modelling report is received by some parties. Shell Energy has argued that there are likely to be substantial costs involved in updating retailer systems to adjust to the FTA rule change if implemented. These costs relate to changing forecasting, billing, trading and pricing systems. We also consider there are likely to be increased costs associated with consumer complaints due to the complexity of some arrangements. This would likely involve the primary FRMP regardless of whether it relates to the actions of a secondary FRMP.

Since the modelling is designed to provide "an indicative estimate of the required Rule change impacts needed to cover the implementation costs", it risks distorting impressions of the modelling results. We encourage both Energeia and the AEMC to exercise caution in how they frame the results of the modelling if all costs are not assessed.

While we understand there is value in identifying the potential benefits from coordinating the flexibility of CER, the modelling may well produce a high headline figure that bears no relevance to the rule change in question. We consider that many of the potential benefits from flexible CER may not require the FTA rule change to deliver them. Rather, the schedule lite rule change, which the AEMC is also currently considering, may allow many of the benefits to be achieved with lower costs and risks across the industry.

[6] Energeia, *Benefit Analysis of Load-Flexibility from Consumer Energy Resources: Methodology Report*, August 2023. p 22

Electric vehicles

While the AEMC has not specifically asked about electric vehicles (EV), they are discussed in the Paper as being one of the CER that could provide benefits through flexibility. Additionally, Energeia proposes to assess the benefits of load shifting and shedding from EVs as part of its cost-benefits modelling.

Shell Energy therefore considers there are some important points to be made around EVs in relation to both the modelling and the assessment of the rule change. Overall, we consider that the likely EV charging behaviour and the AEMC's draft position means that FTA is unlikely to provide any significant benefits for EV charging.

In the first instance, we expect that as the EV market increases, most future EV customers will have the facilities to charge at home. Therefore, excluding small customers from FTA – a decision with which we agree – means that FTA will not deliver any market benefits to home charging for EVs. Retailers are already offering EV tariffs for residential customers, and we would expect this to expand as the uptake of EVs increases. Retailers will be able to coordinate the flexible nature of EV charging at home through tariff offerings rather than changing the NER. FTA is an unnecessary distraction in this regard.

Where customers do not charge at home, they are likely to use destination charging. In these instances, consumers are unlikely to be willing to shift their demand. They will require or prefer charging when they arrive at a charging station. It will be the role of the site owner or operator to then incentivise flexibility for these customers. This could be achieved through in a number of ways such as through pricing offerings by the site owner, without the need for FTA or other changes to the NER. This again highlights that FTA is not needed.

Further, we understand that in practice many EV charging operators already obtain a second connection point where possible. Again, this occurs without the need for FTA and is in conflict with the rationale for the rule change. Making the rule change would therefore impose costs on all consumers to achieve benefits for a small subset of customers who already find benefits in choosing a second connection point.

Given all this, fleet charging represents the last possible case for a role for FTA to play a role in harnessing the potential for flexibility of EV charging. Yet, this could equally be achieved through arrangements with a site's retailer. In our experience as a retailer to large customers, there is a lot more appetite for complexity and differing tariff structures in the large customer segment. This would suggest that retailers and customers are able to structure retail offerings to deliver benefits to customers from flexible approaches to charging. This rule change would not deliver any extra benefits to consumers in this situation.

Overall, we consider that for EVs in particular, the FTA rule change is likely to deliver no benefits. To the extent that there would be market benefits from AEMO understanding when EVs may charge (or discharge) and the potential size of load, the scheduled lite rule change would appear in our view, to offer better potential to deliver these benefits at a lower cost and risk.

Conclusion

Shell Energy does not support the FTA rule change to allow customers to engage multiple FRMPs at a connection point. The AEMC's draft position to exclude small customers from the arrangements is welcome and justified based on the various risks relating to consumer protections, life support, default pricing. However, extending FTA for large customers would apply similar risks to the primary FRMP relating to pricing, hedging, and forecasting customer load well beyond existing risks. The AEMC has also yet to address the concerns we and other stakeholders raised on how network tariffs would be levied in the case of multiple FRMPs supplying the same connection point. AEMO's draft position in the rule change request to apply all network tariffs to the primary FRMP leaves all credit risk with the primary FRMP, reduces the incentives for a FRMP to consider the entire value stack at a site and may not be in the best interests of the customer.

Based on our experience as a retailer to large customers, we see that there is a greater appetite for more complex product offerings with large users, meaning that no change is actually needed to the NER to allow customers to benefit from arrangements that separately value and price their CER. The SGA and embedded network frameworks already accommodate CER for large and C&I customers, and so can continue to be used or amended if needed, to achieve the desired outcomes.

We also note comments attributed to the AEMC in Energeia's methodology report for the cost-benefit analysis on the rule change that indicates commercial and industrial customers are already strongly involved in the market to value flexibility. To us, this questions the need for the rule change if very large customers are strongly engaged and small customer should not be involved.

We also question the rationale on the value of the rule change for EV charging based on customer behaviour. Most EV users would seek to either charge at home, where FTA arrangements would not be allowed, or at a destination where there will likely want to charge when they arrive. Should the site owner want to provide flexibility this can be achieved through their own product offerings rather than a change to the NER.

Finally, Shell Energy is concerned that Energeia's methodology for the cost-benefit analysis is likely to produce a result that does not accurately represent the rule change in question and may distort perceptions of the analysis. Based on the methodology, we consider the costs of making the rule change are under-represented and the benefits will be inflated relative to what's under consideration in the rule change. This is unlikely to be fit for purpose.

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]

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