3 March 2023

Violette Mouchaileh
Executive General Manager Reform Delivery
Australian Energy Market Operator
Level 22, 530 Collins St
Melbourne VIC 3000

Dear Ms Mouchaileh

RE: Structure of participant fees for AEMO's NEM 2025 Reform Program

Shell Energy Australia Pty Ltd (Shell Energy) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) consultation paper on the structure of participant fees for the National Electricity Market (NEM) 2025 Reform Program.

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

Consumers are already under significant electricity cost pressure. The cost of the NEM 2025 Reform Program is significant and will add to consumers' energy costs. AEMO's estimates of $430m - $600m in nominal costs over the next decade represents yet another cost driver on top of the already significant increases we have seen in NEM fees over the past few years. AEMO's 2019-20 Budget estimated around $187m in fees (excluding Victorian TNSP activities) would be collected.[3] In contrast, the 2022-23 Budget estimated $378.5m in fees.

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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] AEMO, 2019-20 Final Budget and Fees, June 2019, p 26.

Increases of 4.5 per cent were also flagged for 2023-24 and 2024-25.[4] The NEM 2025 Reform Program will add further costs on top of this.

Given the context of high energy prices, a further increase to AEMO's fees, with NEM 2025 Program costs added on top of this, is making a difficult situation worse. NEM fees may not be a significant part of consumers' energy costs, but they are increasing dramatically at a time when the wider industry is under significant pressure to reduce costs. Consumers, who have to face these increased costs, should be confident that there is value for money and benefits for them.

We acknowledge that AEMO has outlined this consultation relates to the structure of participant fees themselves and not the actual amount to be recovered. For a reform as significant as this, we find it difficult to separate the two. We note AEMO has included a 40 per cent contingency in its estimates for the NEM 2025 costs, but in addition to this, there is also a +/- 40 per cent level of accuracy in the estimations. Shell Energy wishes to understand how that contingency and the accuracy level interact. Is the +/- 40 per cent accuracy additional to the 40 per cent contingency? Does the +/- 40 per cent apply to the stated $430m-$600m cost estimates? Essentially, Shell Energy wishes to understand the risks of these reforms costing more than the $600m high-range estimate over a 10-year period.

Shell Energy understands that AEMO must implement what it is required of it following regulatory changes like rule changes. AEMO cannot simply decide not to implement a rule change. However, what we have observed is that the importance and magnitude of the implementation cost tends to be minimised during the consultation process, while potential benefits are highlighted comprehensively. Yet, costs are assured and are incurred up front, while benefits are purely theoretical, less certain and may only accrue over time, if at all.

We also query the inclusion of items in the NEM 2025 Reform Program that have yet to pass rule change processes such as the Operational Security Mechanism and Flexible Trading Arrangements. While it appears that the costs of implementing these reforms are not baked into the process as such, and that costs may not be incurred if the projects do not pass rule change processes, it is difficult to parse these reforms to establish where costs may be avoided if certain projects do not progress.

Shell Energy strongly encourages a process to look back at projects to assess whether the costs of implementing them have delivered tangible benefits to consumers. Ultimately, consumers are the ones who pay for these reforms, either directly in energy bills or indirectly through generators factoring in these costs into financial contracts and their electricity market bids. FTI's recent Retail Regulatory Framework Review for the Australian Energy Regulator (AER) recommends a similar approach, arguing:

> *"This review considers that there could be greater use of CBAs and post-implementation reviews (PIR) to better understand the costs and expected benefits of regulatory change and track the effectiveness of different initiatives to protect consumers over time to ultimately reduce inefficient costs incurred by retailers and therefore borne by consumers."*[5]

Options for Participant fee structure for the NEM 2025 Reform Program

Consumers are already facing high energy costs. Adding further increases through increased AEMO fees is at best unfortunate at the current time. Consumers must also be confident that they will see benefits from these programs and from previous reforms.

The challenge with bundling various rule changes together under the umbrella of NEM 2025 reform is that different issues will benefit (or be caused by) different parties. For instance, the enhancing information on

[4] AEMO, 2022-23 Budget and Fees, p 6-7.

[5] FTI Consulting, Retail Regulatory Review, Review for the Australian Energy Regulator, 29 July 2022, p 1.

generator availability in MTPASA rule change imposes obligations on generators (or production units), yet the benefits may accrue across the market through improved understanding of the nature of generation outages. Allocating costs based on the existing fee structure may be complicated. Similarly, many of the reforms relating to Consumer Energy Resources (CER) fundamentally benefit owners of those systems. How costs can be allocated appropriately will be important given their significant scale. The existing structure of participant fees may not neatly translate to the beneficiary or causer of NEM 2025 reforms and new structures to more appropriately allocate these costs are likely necessary.

Of the two options presented in the consultation paper – using the existing participant fee structures or developing a separate NEM 2025 Reform Fee – Shell Energy considers that in the interests of transparency, a separate fee is warranted. These are significant reforms both in terms of scale and cost. A separate fee would demonstrate to all energy market participants the costs of these reforms, allow allocation of the costs to those that cause or benefit from the reform and to begin to assess whether there have been commensurate benefits delivered.

Finally, we agree with AEMO's proposal that cost recovery only commence when projects go live with subsequent initiatives rolled into the NEM 2025 fee structure as and when they are implemented. This would help to minimise cost increases for consumers and to avoid recovering the costs of projects which have yet to pass rule changes and therefore may not be implemented.

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

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