3 February 2023

Submitted electronically

RE: National Energy Performance Strategy

About Shell Energy in Australia

Shell Energy is Shell's renewables and energy solutions business in Australia. Shell Energy delivers business energy solutions and innovation across a portfolio of electricity, gas, environmental products and energy productivity for commercial and industrial customers. Our residential energy retailing business Powershop, acquired in 2022, serves more than 185,000 households and small business customers in Australia. 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. Further information about Shell Energy and our operations can be found on our website here.

Governance

Would an energy efficiency target or targets be suitable for Australia?

As a major provider of energy efficiency and demand response services to business and industry, Shell Energy supports the development of the National Energy Performance Strategy (the Strategy) as a tool to help guide and coordinate policy and ambition in this area. The development of an energy efficiency target at the national level would greatly assist policy makers and businesses to deliver the energy price benefits and emissions reduction potential identified in the consultation paper. Shell Energy strongly supports the development of a national energy efficiency scheme to replace current and future state-based schemes to minimise the complexity and compliance burden for business. We believe the benefits for energy consumers from a national approach could be significant and would greatly assist in coordinating and driving energy productivity improvements through a single national target and energy efficiency market mechanism. If this is out of scope for the Strategy we remain supportive of the implementation of an energy efficiency target as a clear signal to business and policy makers in a similar way to the '82 per cent renewables share by 2030' target. This approach sets clear priorities and provides guidance on ambition for policy development, though without the clarity and efficiency provided by a national energy efficiency scheme.

Under this scenario Shell Energy strongly supports the Government working alongside state governments with a view to harmonising the different energy efficiency schemes operating around the country. The differences in the existing schemes in NSW, South Australia, the ACT and Victoria result in increased costs for energy retailers to comply with the scheme. These costs stem from differences in the ways that certificates can be created, different eligibility requirements for products and the added costs of reporting and surrendering certificates to three separate schemes. A single harmonised scheme or scheme design framework would reduce costs for end users and allow consumers across Australia to access a consistent range of energy efficiency products and services.

How can demand considerations be better integrated into Australian energy governance and what are the priorities for change?

Shell Energy considers that a necessary principle for future policy development in this area is that energy efficiency and demand response should be given equal footing in national and jurisdictional energy market schemes and incentive programs. This would ensure that appropriate incentives are provided to these, often low

cost, initiatives at the right scale. The capacity investment scheme provides an opportunity to apply this principle. Shell Energy would welcome consideration of the benefits of demand response during the development of this scheme.

Commercial

What are the key opportunities to improve the energy performance of new and existing commercial buildings and operations?

Shell Energy's experience in this area indicates that implementing smart building controls to manage consumption patterns is one of the most effective and lowest cost approaches to improve the energy performance of commercial buildings. As well as improving energy performance, the approach provides additional benefits including demand response and grid stability benefits. Shell Energy considers that with appropriate incentives to lower the barriers to investment in smart controls, this approach can provide cost effective, highly scalable benefits to the commercial building sector and would greatly assist in achieving Australia's productivity goals.

What are the most cost-effective private interventions businesses, including small businesses, can make to improve the energy performance of their buildings and operations?

The availability of data is crucial to drive action and change towards higher energy productivity. Investing in energy data analytics to continuously monitor and improve energy consumption is a cost effective solution that businesses of all sizes can benefit from. This solution can range from low cost, DIY solutions to high end ISO50001 style energy management platforms. However, this solution is most effective when the energy literacy of the business is high. Shell Energy sees opportunities under the Strategy to improve the adoption of data collection and analytics and to improve the energy literacy within the commercial sector.

What are the barriers to investment in better energy efficiency for commercial businesses?

Shell Energy considers the lack of support for the enablers of energy efficiency projects to be the biggest barrier to improving energy productivity. The primary enablers of energy efficiency are sub-metering and data analytics software. The installation of submetering can provide valuable data for businesses by monitoring energy consumption at a more granular level. This can enable the identification of specific energy efficiency options not previously known because of reliance on bulk metering. However, the cost of sub-metering installation can be high, and businesses are understandably reluctant to absorb this cost prior to knowing the potential benefits.

Our experience working with customers on energy efficiency projects shows that sub-metering alone is not enough to drive efficiency gains. Data analytics software is crucial to businesses taking advantage of the additional information provided by sub-meters. This software allows sites to track energy performance and identify efficiency projects. The analytics software is critical as too often we see sub-meters installed with data not being utilised. Shell Energy considers sub-metering and data analytics software together form the most valuable opportunity for government support to unlock the potential of energy efficiency.

Uncertainty surrounding the returns on investment for energy efficiency projects is a major barrier. In NSW and Victoria there are schemes (ESS and VEU respectively) to alleviate a lot of the uncertainty by providing additional value streams to energy efficiency. However, in other states, the only similar option is to create ACCU's under the Emissions Reduction Fund's Industrial and Commercial Emissions Reduction methodology. This approach creates a tension between emissions reduction goals and financial incentives for businesses taking this approach. Once ACCUs are created and sold, the emissions reductions must be added back to the business's overall reported emissions. That is, the business can either benefit from the monetary value of the ACCUs or the

emissions reduction for their annual reporting but not both. Whilst we believe the ACCU approach will remain important for many businesses, we support the development of incentives under the Strategy that provide greater certainty of financial returns as well as enabling the be recognition of the emissions reductions created by the business.

Energy literacy is one of the most pervasive barriers to investment in energy efficiency. Shell Energy's interactions with commercial businesses indicate that the businesses that can benefit most from energy efficiency measures are often ones that have the lowest literacy. Low energy literacy results in the benefits of energy efficiency measures being discounted or disregarded by the business. Shell Energy's view is that increasing the level of energy literacy through education or training or awareness programs would greatly improve the uptake and demand for energy efficiency improvements in commercial businesses.

How can government further empower and assist businesses to realise savings through energy performance measures?

As noted above, Shell Energy considers enhanced data granularity from sub-meters, analytics software, energy literacy, and clearer incentives as the main opportunity areas for government to assist businesses realise savings. We also consider that government should encourage businesses, where appropriate, to seek independent measurement and verification of energy efficiency projects. Our view is that that measurement and verification is critical to ensure that incentives and assistance programs retain credibility and can provide productivity benefits over the long term.

How can government support businesses to better utilise digitalisation to improve energy performance?

As noted above, incentives and assistance to de-risk the installation of hardware and software for energy efficiency projects would remove a major barrier to enhancing energy productivity. However, improved energy literacy should be another high priority area to ensure that digitalisation can result in enduring changed behaviour or business processes.

Industry

What are the most cost-effective interventions industry can make to improve the energy efficiency of their new and existing operations?

Much of what has been said about commercial buildings applies to industry. We note that energy literacy is sometimes substantially lower for large energy users which may necessitate a higher priority for action in this area for industry.

Outside of NSW and Victoria, which have had state-based incentive schemes for more than 10 years, considerable energy efficiency opportunity exist. Shell Energy completed an ARENA and Qld Government funded review of 20 QLD manufacturing sites and identified that participants could reduce their annual energy costs by an average of 27%. Extrapolated to cover the whole sector, there is the opportunity to reduce manufacturing energy costs in QLD by $88m per year (based on an estimated $560m per year of current costs). Including demand reduction opportunities, annual energy savings that can be achieved within the manufacturing sector is over $93m per year.

Shell Energy observes that there are opportunities for gas usage efficiency projects within industry. Due to the scale of consumption within the industrial sector the productivity benefits could be large across the economy. These opportunities can also provide highly cost effective outcomes for businesses. However, we note that the

focus energy efficiency schemes and incentives has tended to favour electricity consumption in the past. We believe there is therefore now an opportunity to increase the focus on gas usage efficiency to unlock the benefits of energy productivity for gas consumers in the industrial sector.

What are the potential financial and non-financial barriers to investment in better energy efficiency for industry?

Shell Energy sees similar opportunities to those already outlined for the commercial sector. In addition, there is a much stronger perceived conflict between efficiency and production within the industrial sector as a result of energy being a major factor of production. Shell Energy's view is that this perception is changing and would accelerate as awareness is increased.

What can be done in addition to existing measures to reduce these barriers to investment?

See answer within commercial sector.

How can electrification and demand management support Australian businesses to be competitive and reduce emissions?

Shell Energy sees substantial opportunity to reduce emissions through electrification and demand management. The adoption of these initiatives has been observed at industrial businesses and has been publicly reported in many cases. Access to capital for large industry participants is a crucial factor in making it possible to implement these projects. Smaller businesses may be at a disadvantage as they do not have the same ability to access capital for these, often lower priority projects. Ensuring that the barriers to capital allocation are minimised for these businesses will help make sure that energy productivity gains are maximised across the whole economy and that businesses at all stages of development remain competitive as the energy transition accelerates.

For further detail or questions regarding this submission please contact Peter Wormald (peter.wormald@shellenergy.com.au).

Yours sincerely,

Libby Hawker
GM Regulatory Affairs and Compliance