

COAG – ESB Two-sided markets consultation paper

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Input from Sourced Energy Pty Ltd

Sourced Energy appreciates the opportunity to be able to provide input into future policy and regulatory decisions that will impact the uptake of Distributed Energy Resources (DER) via this open consultation process.

About Sourced Energy

Sourced Energy is an advisory firm of energy market professionals that solve energy challenges for a varied base of clientele, including government agencies, corporate enterprises, small business, and communities.

Many of our consultants have worked in the Australian Energy markets since deregulation in different parts of the energy supply chain and as advisers to some of Australia's largest energy users.

Our clients continue to seek cost-effective solutions that embrace the evolution currently occurring across our market and the globe, in terms of renewable energy, sustainability, environmental protection and social benefits. Amongst our client base there is growing interest in Distributed Energy Resources and end-user participation. We hope to develop products and services that will be further beneficial to our clients and the transitioning market.

Key drivers for Sourced Energy

In relation to the topics covered in the Two-sided Markets paper, and in the Service System and Ahead Markets paper, Sourced Energy views the following key drivers as imperatives for a viable market that is of benefit to the end-consumer, in particular owners in part or whole of DER:

1 Choice, value and empowerment for end users

It is noted in Section 2.1 of the Consultation paper that “consumption of energy occurs only when its cost of supply is less than or equal to the price at which it is valued by the party seeking to buy it.” Sourced Energy suggests that this is not the case for end users, especially the small business and residential market. The party buying their energy – their Retailer – is simply their representative in the market. And while the Retailer is exposed to cost of supply and may seek alternative channels for supply or look to ways of reducing consumption from its end user portfolio, the end user themselves will only react to the cost construct of their Retailer contract.

It is also noted that one of the outcomes of a two-sided market is lower overall prices, delivered in part by the abundance of DER identified to AEMO and potentially available to the networks and integrated into the Wholesale market. Besides delivering a general reduction in all pricing, the new market should also have very limited instances of high price events.

A key to empowering end users and creating true value is understanding how Traders in the future (Aggregators or Retailers) will construct service offerings to consumers that a) reflect the continual decrease in prices as DERs increase, and b) recognise the value of the

investment and ownership of visible DER and the resulting output benefits. We would hope that these new offerings do not simply mirror existing feed-in-tariff arrangements.

2 Options for DER in the energy supply chain

There is much discussion in the market as to the amount of DER that will be implemented in Australia, which technologies will be deployed, and where it will be best placed. DER in the shape of EV batteries will no doubt primarily exist within the residential community initially and potentially with fleet owners of autonomous vehicles if the shared vehicle market evolves.

Solar and storage can be implemented using a much broader strategy; located in centralised or decentralised large generation sites, within the network infrastructure, in special purpose mid-size plants at key locations, or at an end user site. Placement and ownership can differ - networks could allow implementation of equipment by other business entities, mid-size plants could be owned by a business, by a community, or perhaps by a Trader.

At present it is not clear how the market Rules will shape or govern these decisions. One aspect of the decision-making process is whether DER should be a focus of local government planning, in much the same way that rainwater harvesting is managed under BASIX. However, implementation of DER by residents, businesses or the community can only be universally beneficial if there is the capability, both technically and cost effectively, to connect and export excess generation, and market mechanisms to value that export. Much of this obligation lies with the local network service provider and so we see that there must be correlation between community desire, urban planning, DNSP objectives and NEM directives to facilitate the massive opportunity that DER can deliver.

It is our concern that the opportunities for community-level DER, specifically storage, may fall by the wayside as it may be considered too complex, in terms of interested parties, to plan.

3 Delivering value from market trials: end user participation

Appendix C of the paper provides a list of DER trials in place or planned to be in place across the NEM. While there are many aspects to these trials that will deliver understanding and technical capability for management of distributed energy and the evolution of a two-sided market, there appears to be little inclusion of the end user in the benefits assessment.

The majority of the trials are network distribution and wholesale market focussed; investigating the capacity for the underlying networks to manage the impact of increasing DER and working out what platforms will be deployed and how market participants will engage to despatch DER. The Simply Energy VPP trial comes closest to end user involvement, however it is a one-time offer from a Trader with no competitive tension and no real decision making from the end user once they have agreed to participate.

Perhaps not surprisingly the trials are inward-looking, concerned with the ability of the market to operate. Some of the questions in the paper are around how the end-users may participate, in general a division between direct involvement or through their Trader. It would be useful for the trials to provide some feedback as to what level of interest there may be in

participation at all. To provide meaningful responses from end users requires considerable divulgence of what the market of the future will look like, in particular the likelihood of high and low pricing events, the benefits and risks of participation, and the type of services packages / contracts that Traders may offer. It is misleading to the end users to provide current pricing scenarios if there is a consensus opinion that these events are unlikely to occur in post-2025.

Response to Questions

We have chosen to selectively respond to the questions posed by the paper.

Our review and response to the Two-sided Market consultation paper is focussed on those concerns we have for end-user benefits and the need for coordinated application of DER.

3.5 Questions: Key concepts for two-sided market design

2. Under the current market rules, traders of different kinds (eg retailers and small generation aggregators) have different obligations to the market operator, end users and other market participants. To what extent (if any) would it be helpful for a two-sided market design to distinguish between different types of traders, or between traders in different services?

Sourced Energy response:

We view the concept of the Trader role to be sufficient i.e. we see no need for distinction between Retailer and Aggregator. We believe the focus should be on the Services. A definition of Services is to be established by a group in the market management hierarchy - COAG/ESB, AEMC, AER, AEMO; in fact most Services already are, and new Services e.g. Operating Reserve, Fast Frequency Response, are being structured. A Service can carry rights and obligations rather than the participant. If the intent is to progress to Full Participation by all Traders then there will be a common engagement by all.

5. Should some types of interactions (e.g. between traders and vulnerable residential customers, in respect of certain services) be restricted or prohibited, or will appropriate consumer protections address the concerns while allowing full end user choice in participation?

Sourced Energy response:

Restriction and prohibition, and indeed a broader approach to Trader ethics, needs to be considered if the market moves from Voluntary Participation to Selective Participation or Full Participation.

Under Full Participation, there is the chance that many Traders may abandon small consumers with uncontrollable loads as they add risk to their forecasting. This will limit options for these consumers and may place an obligation on the 'local' Retailer (or designated equivalent) to manage the leftover users of the market.

In both Selective and Full Participation, new entrant Traders will require clear understanding of the risks and penalties in the bidding process. The extent of the risk will determine the extent of new retail competition.

6. What considerations should be taken into account in designing a two-sided market that allows innovations in technical standards and services?

5.6 Questions for consultation Questions: Who should participate?

1. Two approaches are presented for selective participation under a two-sided market- differentiating on size of customer or size of retailer. What are the relative benefits or costs of each approach? Are there any other approaches to selective participation that should be considered?

Sourced Energy response:

Under Selective Participation, we view the model to be more efficient under the end-user categorisation rather than the Retailer categorisation. The decision on which entities make up the 'largest' Retailers would require definition and would undoubtedly see Retailers come and go on that list over a period of time. Similarly, large customers can move between Retailers over time, potentially dropping out of the tracked load by moving to a small Retailer. Large customers above 100MWh/p.a already have the interval metering in place to support this obligation.

4. Are there any other additional elements to participation that should be explored in the next phase of work?

Sourced Energy response:

We would like to reiterate that we believe that community-level DER is a worthwhile strategy to be explored in the market, and that future market design and rules decisions play a role in encouraging or thwarting this endeavour. Western Power has launched its Powerbank community battery project which hopefully will demonstrate the value of this concept. We are not advocating that the DNSP needs to own the infrastructure. There are many end-user groups, including local councils, who are interested in coordinating community partners to finance and install these solutions. And by including Local Government in the siting of solutions in the community there is integration with urban planning.

As a further consideration we believe that customer ownership of data (and electrons) should be always emphasised and protected in market models. Aggregated data should not be gamed or used by aggregators for their own benefit without client knowledge.

Data ownership also should be considered by the market operator and how the cost of this data should be minimised. The ASX's largest revenue source is from licensing its data to 3rd parties and customers. The two sided energy market data should be carefully protected and not be sold or outsourced to a third party so that fees for simply accessing the data are prohibitive in future years.

Sincerely,

Sourced Energy

Contact: Mr David West, Director

E: David.West@sourcedenergy.com.au