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Dr Kerry Schott

Chair, Energy Security Board

info@esb.org.au

Dear Dr Schott,

Re: National Energy Guarantee Final Detailed Design for Consultation

Flow Power is pleased to have the opportunity to provide input on the National Energy Guarantee (NEG) Final Detailed Design for Consultation. We are encouraged by the ESB's ongoing commitment to consultation. Amid the confusion of recent weeks, we make this submission based specifically on the paper.

Despite the recent political turbulence and leadership change within the current Australian Government, Flow Power believes it is critically important to continue to develop an effective energy and emissions framework that will support our changing power market.

Whilst it is an imperative that a framework is retained, it is also important that any changes to the Final Detailed Design as proposed are carefully assessed against the original aims of the NEG. The policy objectives of maintaining the reliability of the system, achieving emissions reductions, and providing energy at lowest cost must be preserved. This is particularly relevant should the emissions reduction requirement of the NEG be removed as recently announced by the Australian Government. Discounting a key component of the policy, will have knock on effects to investment signals for new generation and remove the sector of the economy where emissions reduction is most cost effectively achieved at scale.

Flow Power directly connects customers to generation. We believe this is key to the future of the electricity market and one of the most important solutions to improving market reliability. Once customers have this "connection" to the market, they are motivated to make more considered decisions in their energy use that result in a change in energy use behaviour and delivers a very cost effective solution. The NEG must recognise these customers and the significant contribution they can, and in many cases are already contributing, ensuring future reliability. In its current form, we do not believe the NEG does this effectively.

Flow Power is an active supporter of renewable generation and was an early mover in offering corporate PPAs to provide business customers with lower cost electricity and price confidence to project investors. We are a growing electricity retailing business that is actively responding to the changing electricity market and the needs of our business customers, particularly in providing cost effective solutions that are directly linked to market price signals. It is essential that these market price signals are left to work as always intended, to drive the required investment and innovation in the sector. A clear energy policy will allow this and obviate the need for regulatory intervention or price ceiling protection for customers.

We will continue to work with the ESB. There are numerous issues that need to be addressed and worked through before final ratification occurs. If you have further questions, please contact Liz Fletcher on 0417 080 535 or email liz.fletcher@flowpower.com.au

Kind regards

Matthew van der Linden
Managing Director
Flow Power

Detailed Response

The follow responses are in relation to specific concerns noted above and throughout the Final Detailed Design consultation paper.

Emission Reduction Requirement

On the emission requirement, Flow Power previously expressed the following concerns:

- The policy design should ensure maximum transparency in how emissions are registered and matched against market customer load,
- The NEG should ensure that the emission reduction target can be reviewed upwards within a reasonable timeframe to adapt with the changing electricity market dynamics; and
- The Australian Government should not allow the use of external offsets for meeting obligations under the NEG.

Flow Power welcomes the application of a “whole-of-market” approach to all generation being registered in the emissions registry then being matched against every MWh of customer load. Using AEMO to administer the emissions registry is sensible given their access to the necessary information and market interaction.

The revisions to the over-allocation principles are also noted. We believe it is important that market customers are incentivised to reallocate any over-allocation ahead of the compliance reporting period, making it less likely that dominant market participants will hoard low emission energy. In the event that a market customer is deemed to be over-allocated, Flow Power supports the principle that the lowest emission intensity energy be returned to the unallocated pool.

The Final Detailed Design changes allowing market customers to defer their entire emission intensity obligation in the first year (to be made up in full in the subsequent compliance period) is supported as it provides liable entities with flexibility in managing obligations and manages the risk where the market takes time to be established or contract supply (for low emission energy) is limited. The increase in the carry forward limit to 10% of the first year’s annual emission intensity target (tCO₂/MWh), plus a fixed amount of 60,000 tCO₂ is also welcomed.

Flow Power is disappointed that the Australian Government has confirmed that it will allow the use of offsets (domestic Australian Carbon Credit Units) for liable entities to comply with the emission requirement. Flow Power has previously opposed the use of offsets on the basis that it distorts the investment signals in new low emission generation sources. Given the Government has signalled that the use of offsets will be limited (to an as yet unspecified level), we encourage the Government to set this level to a maximum of 5% of a liable entities annual emission target.

Reliability Requirement

On the reliability requirement, Flow Power previously expressed the following concerns:

- The NEG must ensure transparency and liquidity in contracts associated with satisfying the reliability requirement,
- The lack of detail on the proposal for a Market Liquidity Obligation for large vertically integrated participants,
- The lack of recognition in the NEG design for the principle of customers managing their own spot price exposures and the utilisation of demand response, and
- AEMO’s involvement in the voluntary book-build process,

Flow Power welcomes the additional detail in the Final Detailed Design on large vertically integrated retailers being required to participate in a Market Liquidity Obligation (MLO) scheme when the reliability requirement is triggered. We see this as a positive development that recognises the lack of availability of qualifying contracts and poor price transparency in some jurisdictions. Measures that improve the liquidity of qualifying contracts where a reliability gap is identified are supported.

We continue to have reservations around AEMO being the appropriate body to manage the voluntary book-build process in the event a reliability determination is made.

The Final Detailed Design has continued to ignore the common market convention of end use customers purchasing energy directly from the spot market and managing their exposure to high spot price events by utilising demand-side response. A large proportion of Flow Power's customer base utilise spot pass-through purchasing arrangements to achieve a lower cost outcome than that delivered via traditional contracting. Requiring Flow Power (as the liable market customer) to purchase qualifying contracts for this load component ignores the active market participation and response to high price events provided by these customers. We believe this is a pivotal mechanism for investment signals in generation both behind and in front of the meter.

The failure to recognise this method of purchasing creates a significant disparity in the NEG design. While market participants offering financial derivatives can be used by liable entities to offset their reliability obligations without any need for the market participants to physically back their position with generation or demand response, customers are not afforded with same measures. Both parties will have the same exposure and financial incentives, the spot price, and therefore have similar investment signals to ensure they do not remain market exposed.

If the NEG fails to achieve parity and fairness in this respect we could end up with the revers of what the NEG attempts to achieve. Customers may be forced to hedge their load with counterparties that have no obligation to actually physically hedge their load, increasing customer costs significantly and providing a strong signal to the customer to not manage their load and as a result increase costs to the market.

Flow Power has demonstrated time and time again that once customers receive pricing signals they change their behaviour and start to view their energy use differently. As we have previously documented Flow Power's total electrical load during Jan-18 almost halved as a result of our customers responding to price. If the NEG is designed correctly it should encourage this behaviour, not discourage. The current design discourages this behaviour by treating different market sectors differently.

Flow Power is disappointed that the Final Detailed Design contains no further detail around the utilisation of demand response and its eligibility as a qualifying instrument under the reliability requirement. This is despite the updated modelling by ACIL Allen presented in the Final Detailed Design Paper assuming that demand-side participation will increase under the NEG relative to the No-Policy scenario. We believe the opportunities and eligibility of demand response need to be fully assessed as it has the potential to play a significant role in meeting reliability requirements in a cost-effective manner.

Flow Power believes that customers on price-reflective pricing structures like spot pass-through should contribute to the reliability target for a liable entity.

We acknowledge the sensible enhancement in the Final Detailed Design that retailers can adjust their contract position within a compliance year when they take on new C&I customers with historical load volume that is less than 30MW. With many large customers seeking to renew their contractual arrangements within the T-1 horizon to enable more accurate forecasting of load consumption flexibility in energy procurement timing for customers and retailers to be maintained.

Reliability Requirement – Pre-condition Options

At the request of the COAG Energy Council, the ESB has developed alternative policy options for activating the reliability obligation due to concerns that a reliability gap could emerge at any time during a 10-year forecast period. Draft amendments to the National Electricity Law allow the National Electricity Rules to provide for circumstances when liable entities would be obliged to submit their contract position at T-1 without a T-3 determination (or reliability gap) being required. Flow Power believes that these circumstances must be clearly defined, and directly related to a reliability gap requirement being identified.

Of the alternative pre-conditions for activating the reliability obligation proposed by the ESB, Flow Power prefers (Option 1) the addition of a five years ahead (T-5) determination of a material reliability gap. Flagging a material reliability gap two years earlier (T-5 versus T-3) would give potential investments greater time for implementation and bring a wider range of potential (and thus more cost-effective) solutions to the table to remedy the reliability gap ahead of time.

Flow Power has reservations with the transitional arrangement proposed as an alternative to Option 2 whereby a jurisdiction would have the discretion to activate the reliability obligation in their region. Leaving the decision to activate the reliability obligation to the jurisdictions is fraught with danger and open to political influence. Clarity around the decision-making criteria in deciding to activate the reliability obligation would need to be established and agreed in the Rules and clearly linked to the identification of a reliability gap.