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Energy Security Board
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Mojo welcomes the opportunity to provide a response to the Energy Security Board's National Energy Guarantee Draft Design Consultation Paper of 15 February 2018 (**Paper**).

BACKGROUND

Mojo is an emerging innovative Australian energy retailer. We seek to make a fair profit that better reflects the true costs of providing our services. We provide a range of innovative services to our residential customers base, including: installation of new smart meters; accurate monthly billing; engaging and informative energy data and advice via our online portal and leading mobile app; and access to further savings through our demand response program.

NATIONAL ENERGY GUARANTEE (NEG)

Reliability

The Guarantee will require retailers to contract with, or directly invest in, generation, storage or demand response.

On the one hand reliability is defined in the Paper as relating to "a system with enough energy (generation and demand side participation) and network capacity to supply consumers". However, reliability is also defined in terms of the availability of a level of "dispatchable energy available to meet consumer and system needs".

These two concepts — one dealing with the sufficiency of supply, and the other dealing with the level of dispatchability, may not be the same.

Coal fired generators cannot ramp up and down their output in response to short term imbalances in supply and demand. Are coal fired generators therefore considered to be dispatchable in the same way that gas generators are, or for that matter batteries and pumped hydro? It would seem dispatchability can be defined in various ways and for various time periods. All have their value.

Existing market mechanisms already provide a way for certain generators to be paid, often extremely high amounts, for their dispatchability. These capacity-like payments are available via the creation and sale of cap contracts. We consider that these high price events already provide an appropriate signal for highly dispatchable generators to participate in, or enter, the NEM.

The ESB notes that where "a reliability gap has been identified, the market would be expected to react and start to invest in new capacity or offer additional existing capacity to the market to close the gap." How exactly will this happen? Placing obligations and penalties on retailers may be too removed both in time and place of responsibility for this to occur as a natural market consequence.



The existing contract market is very short term in nature, covering around 18 to 24 months out from present day. Are retailers expected to start to enter into longer term contracts required by these new sources of generation? This is not something that smaller retailers are easily able to do and may further entrench the position of the larger vertically integrated retailers who have a natural long-term position through their ownership of generation assets.

Contracting

The NEG is expected to increase contracting which in turn is expected to reduce wholesale electricity prices.

Pushing retailers towards the contract market may have unintended negative consequences for smaller retailers who are unable to obtain competitively priced contracts, long-dated contracts, contracts that do not satisfactorily match the intra-day load profile of their customer base, or respond to growing load over relatively short periods of time.

Mojo's primary method of contracting is via the ASX futures exchange. We are concerned that contracting via the ASX futures exchange will become more costly and less favoured under the NEG. Specifically, if the purely financial contracts in existence today are imbued with physical characteristics of carbon intensity and reliability, this will pollute the effective price signal that these contracts and the spot market provides.

While whole of meter, or load following, contracts are desirable in that they allow for better matching of contracted energy to the underlying load profile, this can come at a premium to simply purchasing energy off the spot market or managing one's own hedge book. Furthermore, load following hedges are often not made available to emerging retailers due to credit concerns.

In summary we are concerned that the hedging products and strategy available to Mojo and other smaller retailers will put us at a significant disadvantage relative to more established retailers that either own their own sources of generation or who have the credit profile and capital base to enter into long term hedges.

Emissions Intensity

The lack of clarity on how the deemed or default emissions level will be calculated represents a material risk and uncertainty for Mojo's business.

Reflecting some of the discussion above we are concerned that stapling the emissions intensity requirement to the reliability requirement and having these both included in the core energy contract will constrain all of these important aspects. We hold the view that the price signal, emissions requirement, and reliability requirement should be separated contractually allowing each the freedom to be optimised without the unnecessary binding together of the other elements.

Compliance

The regime for monitoring and reporting appears to be highly bureaucratic and burdensome for retailers who are already overburdened with regulations and compliance obligations. The costs associated with managing and complying with an intensive and overlapping regulatory framework is material for an emerging retailer and represents a significant barrier to entry for others considering becoming an energy retailer in the NEM.

Conclusion

The fundamental design of the NEG which places the burden of compliance and reporting on retailers will lead to increased retail costs which will be most impactful to new and emerging retailers as they do not have the scale of larger retailers to bear these additional costs.

Consideration should also be given to the advantage that the larger retailers have by virtue of owning their own generators. This advantage will be exacerbated by the NEG which will undoubtedly favour those retailers with their own sources of generation.

If the intention is to encourage increased retail competition we recommend that smaller retailers be exempted from the obligations foreshadowed in the NEG. This could be done as a measure of customer numbers or net energy settlements. We recommend that authorised retailers with fewer than 100,000 customers and less than 500,000 MWhs of AEMO settlements be exempted from the NEG obligations. There is precedent for this kind of arrangement, for example, in the UK market smaller retailers are exempted from certain environmental obligations¹ and this has led to a high degree of retail competition in that market.

Even if smaller retailers are exempted from the obligations imposed by the NEG we are concerned that the NEG will reduce the appeal of hedging via the ASX futures market. This has the potential to reduce liquidity, distort price signals, and disadvantage retailers who are reliant on the clarity and transparency provided by the futures market.

We welcome further discussions on this issue. Should you wish to contact Mojo with respect to this submission, please contact Darren Miller at dmiller@mojopower.com.

Yours faithfully,



Darren Miller
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Mojo Power

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/es919_information_for_independent_suppliers_03062015.pdf