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Provided by online lodgment to: info@esb.org.au

National Energy Guarantee Response to Draft Detailed Design Consultation Paper 15 June 2018

Power Club Limited is pleased to respond to the Energy Security Board's National Energy Guarantee Draft Detailed Design Consultation Paper dated 15 June 2018 and the associated Technical Working Papers.

Power Club Limited ("PCL") is a recently registered energy retailer that aims to deliver electricity through an innovative business model and as such we are seeking the design to be supportive of innovation and new approaches to the energy market.

We note that while we may differ in our view on the best overall approach to the problem at hand, in reviewing the latest proposal from the ESB, a significant number of our concerns have been addressed.

The papers define the key issues as the need to resolve an identified material gap in generation capacity prior to its occurrence by "incentivising the delivery of resources", with the need to simultaneously reduce emissions in-line with nationally agreed targets.

We agree with the direction of both and they mutually require a restructure of generation over time to achieve the desired outcomes.

Extension to the current proposals

In preparing the Electricity Statement of Opportunities, AEMO becomes fully aware of the available generation, including existing, retiring, new builds, embedded, behind the meter, demand and other influences to supply. The proposed qualifying contracts to be used are unlikely to provide any retailer with their obligation solely supported by fully firm contracts and even less likely for the market as a whole, while simultaneously recognising that any exceedance of a forecast threshold is likely to be only a small or very small percentage of the overall demand.

PCL appreciates the complexity of what the ESB is setting out to achieve and would like to table an approach that in conjunction with those already proposed may deliver an even more effective outcome.

Before PCL goes to that we would like to cover a couple of general industry issues that are relevant to what we are proposing. It is recognised that the current industry is dominated by three major generators that also retail (Gentailers) and a couple of smaller ones. It is unlikely that the rules would change in such

a way as to separate generation from retailing to remove that issue as a whole. The not yet confirmed option in the “Book-Build” would enable smaller retailers to come together to contract with a third party to develop additional new-build generation. This later proposal while helping to resolve the identified gap is a rigid approach to resolving the identified gap, solely through contacts.

The proposed process for incentivising the market could be described as a strong influencer, but it does not provide an absolute result other than by the Procurer of Last Resort, it just helps to push industry participants to do what is needed.

PCL recognises that any retailer is entitled to create new-build generation as part of meeting its reliability component, however, the current proposal provides nominal reward for this.

PCL proposes that any retailer who contracts to complete a new-build of capacity in-line with their portion of a predicted gap, be considered compliant.

This would enable a retailer to take the most financially expedient path in providing the balance of their generation needs and add emission free generation to their capacity, assisting it to meet its emissions target. It would also provide the greatest flexibility so as not to stifle creativity and new market products.

The retailer provides the missing generation it is responsible for and AEMO has already identified that the balance of the generation capacity exists to support that retailer to be compliant. There should only now be a requirement for minimal reporting.

There should be some rules in place for this though. If this is to be used to encourage retail competition by incentivising smaller retailers to participate in a similar manner to the major gentailers, then it should be offered under a MWh cap of retail volume. If it is to be offered to the whole market then rules should be in place so that any retailer retiring generation in say the last five years, could only claim new-build MWh capacity above that which was retired, to meet their obligation.

Adding this opportunity would specifically meet the shortfall, help add liquidity and level the playing field in the longer term, while strengthening the proposal to date.

Other Issues

Book-build

There does seem to be a potential issue here. If retailers jump in quickly to enter a book-build and it provides the required generation, which ends the “material gap”, then all other retailers are relieved of any obligation. It is likely that a Book-build would involve smaller retailers who are less available options to meet their requirements. We do not have a proposal to deal with the underlying issue.

As above it may be appropriate that those in the Book-build also have the option of owning their portion of the build.

Demand

The rules around demand seem to be unreasonable in that if a retailer provides a facility with a customer to manage their demand and the result is measurable the retailer is unable to benefit.

If the same customer goes to a third-party retailer who uses the same controls to manage the same demand reduction of that customer, they would get the benefit of it.

This concept will stifle invention and creativity in the relatively new industry of demand management.

PCL agrees that there needs to be a strong evidence base around this to support implementation of demand management but as we move to a distributed energy infrastructure with greater customer participation, the market needs to become more flexible in its approach. It is not just about big generation or single big demand reduction any more. Technology will enable supporting data to be available to accurately evidence demand management impact.

The above is especially true as new technologies enable demand response in ways never considered.

Emissions Registry

This document states that “contract(s) would not be recorded in the registry”, “the registry would only record the amount of output that has actually occurred” and “The registry would allow for reallocation of output between market customers”

If this is not contractually based, then the assumption is that by agreement between any two parties post generation, the generation can be re-allocated at will. If this is the case then this becomes a post-generation carbon trading market and any low emitting generator will sell its premium emissions to the highest bidder and more probably to a high bidder with which it has a substantial relationship already, pushing out opportunities for smaller retailers and increasing the costs overall.

This is likely unless the reallocation is specifically related and sized to the pre-generation contracts and associated emissions and audited as being correctly allocated. The problem is that the majority of acceptable contract types do not connect specifically to any of the underlying generators and would not be auditable as such.

PCL considers it inappropriate for retailers to be able to buy/sell/negotiate for generation that they did not contract for pre-generation with specific emissions.

Furthermore, retailers will have already paid for generation at market cost. This additional carbon market will add a further impost to the actual cost of generation. It will start another market and associated costs and risks, favor retailers with stronger relationships with preferred generators (typically because of prior volume), distort the balance of the uncontracted pool and have a natural prejudice against smaller retailers.

New Entrant - Mechanisms

The 50,000 MWh exemption for emissions and the 5MWh demand cap for reliability are both critical for the entrant of new retailers. While not excessive they allow some space for a new retailer to enter the market and establish themselves before being confronted with the additional impost they bring. In addition, because of the small energy volume of a new retailer it makes 5MWh contracts impossible and the likely additional cost of 1MWh contracts problematic. Ideally these minimums would be set slightly

higher to 75,000MWh and 7.5MWh demand respectively. PCL cannot offer a better approach than that proposed at this time.

It is critical for new entrants that these minimums remain. It would be very difficult otherwise.

Market Customer Load - Pumped Hydro

Definitions for this response:

“Primary Generator” is a generator that predominantly sources all the energy requirements to operate itself from coal, diesel, steam, gas, wind, sun or some other primary source, to generate the exported energy to the grid. It includes hydro using only “unpumped” water and battery storage where the initial energy to charge the batteries comes from “behind the meter” onsite wind, solar or some other on-site generation.

“Secondary Generator” is a generator which predominantly sources substantial amounts of its initial energy from the grid to create stored energy, to enable later “re-generation” of exported energy to the grid. This includes use of water that was previously pumped to elevation for reuse and batteries storing energy from the grid.

PCL agrees that Primary Generators should be treated based on net energy as the volume of imported energy will likely be small compared to exported.

PCL disagrees that the Secondary Generators should be treated as net generation. While their export is likely coming from low emission batteries or previously pumped water, their imported energy used to achieve the “low emission” export may not have been low emission and needs to be expressed correctly and reflect to those retailers contacting with them for supply.

Rules need to be established around this so that these entities are equally involved in and responsible for the emissions component.

Assuming the Secondary Generator is acquiring its imported energy via a retailer, normally the retailer would have to deal with the associated emissions. PCL considers that these cases would be better to express their import driven emissions across their exports to the receiving retailer, to provide a clearer definition to their part in causing emissions, instead of looking at them as emission free sources.

Thank you for the opportunity to comment on the papers.

Yours faithfully,

A handwritten signature in black ink, appearing to read "SM", with a long horizontal flourish extending to the right.

Stuart McPherson
Chief Executive Officer
Power Club Limited
12 July 2018