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28 January 2022

Ms Anna Collyer

Chair

Energy Security Board

Submitted via: Info@esb.org.au

Dear Ms Collyer,

Re: Transmission access reform – Project initiation paper

Flow Power welcomes the opportunity to make a submission in response to the ESB's project initiation paper recommencing their work looking at transmission access reform.

Flow Power is an electricity retailer that works with business customers throughout the NEM. Our vision is to redefine how customers manage energy, putting them at the centre of the market and accelerating Australia's progression towards a net-zero future.

We empower our customers to take control of their energy usage, lower their bills and reduce their carbon footprint. We provide customers with:

- Transparent retail tariffs that reward demand flexibility and encourage electricity usage at times of plentiful renewable output.
- Hardware solutions that provide greater visibility and control over energy use.
- Access to renewable energy, either through distributed solar and storage installed on site, or through a virtual generation agreement with utility-scale wind and solar farms.

We believe that by equipping customers with these tools, we can lower costs for all energy users and support the transition to a net-zero carbon future.

Overview

As Australia decarbonises, the NEM will need to become a power system characterised by renewable generation, a dynamic demand side and firming technologies. While we have observed a strong appetite for continued investment in these resources, significant upgrades to the network will likely be needed to facilitate and support this transition.

The ESB has highlighted concerns with access to the transmission network, and this project represents a continuation of the policy work on transmission access. While we appreciate the

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direction given to the ESB by Energy Ministers regarding these reforms, we are not convinced that the proposed congestion management model is an effective or pragmatic solution. Further, we are particularly concerned with the implications for future investments and the potential reduction in contract market liquidity if the congestion management model (CMM) proceeds.

For example, there would be:

- significant costs associated with development updates to our billing system required to allow for locational marginal pricing. Unlike other retailers, we have pass-through arrangements with several commercial and industrial energy customers for power purchase agreements with solar and wind generators across Victoria, South Australia, and New South Wales.
- material amendments required to our existing hedging contracts to account for locational marginal pricing. Given the nature of the amendments (being the risk of material price divergence) we would expect some amendment negotiations to result in protracted disputes, even litigation, as was seen on the introduction of the Federal carbon scheme. Flow Power has signed agreements with 12 solar and wind farms around the NEM and will expand this portfolio over time, so the impact on our business and our ability to connect our customers with renewable assets would be significant.

The ESB should consider alternative approaches, such as the models proposed by Edify Energy and Shell Energy. We've provided some additional comments on various aspects of the consultation paper below.

Case for change

The ESB set out three challenges to be solved:

1. Providing effective locational investment signals for generation, storage and demand.
2. Management of congestion, resulting in better utilisation of the network and more efficient dispatch outcomes.
3. Risk management tools, giving investors greater confidence in establishing a business case for their projects.

We disagree the CMM is the best solution to solving these challenges.

There are existing locational signals that factor heavily in the decisions made by investors. The risks of congestion and MLF degradation had large impacts on some investors and consequentially are subject to much more rigorous assessment prior to investment. We do not think there is a clear need to introduce new locational signals for generation investment.

Further, it is not clear the extent to which disorderly bidding will create inefficiencies or whether CMM is an effective solution. In a power system with a growing amount of zero marginal cost generation, the inefficiencies arising from disorderly bidding will decrease in materiality. Other stakeholders have also highlighted examples where CMM induces different forms of disorderly bidding.[1]

While the ESB has argued CMM will provide industry with access to risk management tools, we believe its introduction threatens the primary risk management tool used by retailers and customers – the financial contract market. Introducing the risk of price separation between the output of a generator and a customer creates a basis risk that must be allocated. This complicates

[1] Shell Energy, *Submission to the Energy Security Board – Post-2025 Market Design Options,* June 2021, pp. 25-26.

contracting and signing power purchase agreements. Trying to account for unclear, significant future regulatory change or change in law impacts the ability for counterparties to enter long-term offtakes. It is time consuming, costly, and very difficult to anticipate all the potential outcomes of a COGATI reform and then must allocate the risks of those potential outcomes on either party.

For existing projects, the ESB has suggested this is addressed through the introduction of a congestion rebate. It is unclear how well the congestion rebate would offset the congestion charge, and the potential for mismatch creates challenges for back-to-back contracts such as retail PPAs.

Other approaches to transmission access that should be considered

The ESB's initiation paper asked for suggestions from stakeholder regarding models or mechanisms that could better meet the objectives for the transmission access reforms. Two models that have been proposed that should be considered further are:

- Edify Energy's proposal to establish a congestion management market[2]
- Shell Energy's proposal to introduce locational connection fees.[3]

Both models present options for addressing the ESB's concerns regarding operational and locational inefficiencies that may arise under the current transmission access frameworks.

In conclusion

We do not believe the CMM best addresses the issues raised by the ESB. Instead, the ESB should work through alternative models, including those proposed by Edify Energy and Shell Energy.

If you have any queries about this submission, please contact me on (02) 9161 9068 or at Declan.Kelly@flowpower.com.au.

Yours sincerely,

Declan Kelly

Regulatory Policy Manager

Flow Power

[2] Edify Energy, *Submission to the ESB's Post-2025 Market Design Options paper,* June 2021
[3] See attachment A of Shell Energy's submission to the ESB's April paper.