

10 June 2022

Ms Anna Collyer

Chair

Submitted via: info@esb.org.au

Dear Ms Collyer,

Re: Transmission access reform consultation paper

Flow Power welcomes the opportunity to make a submission in response to the Energy Security Board's (ESB) consultation paper on transmission access reform.

Flow Power is an electricity retailer that works with energy customers throughout the National Electricity Market (NEM). Together with our customers, Flow Power is committed to our vision of creating Australia's renewable future.

We empower customers to take meaningful action. By providing energy knowledge and innovative technology, we are delivering smarter ways to connect customers to clean energy to make our renewable future a reality. We provide our customers with:

- Engineering support, access to live data and transparent retail tariffs that reward demand flexibility and encourage electricity usage at times of plentiful renewable output.
- Hardware solutions that equip customers with greater information, 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 renewable 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

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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 direction given to the ESB by Energy Ministers regarding these reforms, we have not been convinced that there is a strong need for such dramatic changes from the status quo.

Of the four options raised in the ESB's consultation paper, we consider the congestion relief market and connection fees to be the most promising. However, both require further assessment of their respective costs and benefits.

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 believe the ESB has understated the existing mechanisms for addressing these challenges. For example, there are existing locational signals that factor heavily in the decisions made by investors. The risks of congestion and MLF degradation are increasingly well-known to investors and are subject to rigorous assessment prior to investment.

Further, the ESB has not produced compelling evidence that disorderly bidding will create inefficiencies or whether congestion management model (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.

Investment timeframe options

The first option for improving investment decisions should be providing improved information. Providing developers with clear, upfront information about congestion and grid capacity would lead to more informed locational decisions.

Of the investment timeframe models presented, we believe the connection fee model appears most effective. If this model is progressed, it should focus on deterring bad locational decisions instead of trying to accurately determine the long-run cost of each development. In effect, it would act to block investment that would add little or no additional generation capacity, or would have the effect of reducing transmission capacity. There are several outstanding questions that will need to be answered:

- How would the recovered connection fees be allocated?
- What, if anything, do proponents get in return for paying a connection fee?
- How are the fees determined?

Operational timeframe options

The paper outlines two proposals for access reform at operational timeframes: a congestion relief market (CRM), and a CMM with rebates.

The paper suggests the costs of CMM is approximately \$10M, while CRM would cost ~\$300M +/- 30%. While we appreciate these are initial preliminary costs, the costs estimated for CMM do not appear consistent with, or informed by previous cost estimates for implementing COGATI (including costs to participants) for CMM. For example, the Australian Energy Market Commission (AEMC) was provided with consultant advice suggesting costs to market participants of introducing location marginal prices would be in the range of \$28-34M.¹ While the ESB might argue these implementation costs have reduced through the issuing of rebates, we are not convinced the rebates as outlined in the consultation paper will reduce these costs for participants. This is discussed later in this submission.

The comparison of cost estimates in the consultation paper also doesn't account for the potential cost reductions of the CRM having had feedback from AEMO on the nature of these implementation costs. The ESB have had opportunities to work with AEMO to understand and mitigate the implementation costs for CMM, whereas the proponents of the CRM have not yet had the same opportunities. We are a member of the Clean Energy Council and support the work they are doing on the CRM, including how it could be modified so it can be implemented at lower cost.

The ESB's description of how "universal" rebates would be allocated raises concerns. For example, the ESB has suggested either allocating rebates purely on availability, which it notes risks creating a windfall gain for peaking generation, or administratively determining a cut off for peaking generators. Current market conditions highlight the risks of making administrative determinations of SRMC or the price bands that would notionally exclude peaking generators. The ESB's paper suggests rebates will be determined as an approximate hedge against basis risk, which could likely mean in practice these rebates will be a poor risk management tool.

If the rebates are a poor risk management tool, the introduction of a congestion management model would threaten 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 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.

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 the impacts of locational marginal pricing and congestion rebates. 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

¹ HARD Software, *A preliminary indication of the Information Technology costs of Locational Marginal Pricing*, Sept 2020, pp. 3-4. Available [here](#).

has signed long-term agreements with 12 solar and wind farms around the NEM and will expand and extend this portfolio over time, so the impact on our business and our ability to connect our customers with renewable assets would be significant.

The congestion relief market appears to satisfy the objective sought by the Energy Security Board with respect to operational timeframes. It has the impacts of a congestion management model, while also providing:

- congestion relief that adjust dynamically to the changes in network conditions
- optionality for participants, significantly reducing impacts on participants in contract markets
- reduced billing impacts for complex retail PPA billing.

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

Yours sincerely,

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Flow Power