

29 July 2022

Attn: Energy Security Board

RE: 2022 Capacity mechanism High-level design paper

To whom it may concern,

Fluence Energy, Inc. (Nasdaq: FLNC) is a global market leader in energy storage products and services, and digital applications for renewables and storage. With a presence in 30 global markets, Fluence provides an ecosystem of offerings to drive the clean energy transition, including modular, scalable energy storage products, comprehensive service offerings, and the Fluence IQ Platform, which delivers AI-enabled digital applications for managing and optimizing renewables and storage from any provider. The company is transforming the way we power our world by helping customers create more resilient and sustainable electric grids.

Fluence is actively supporting the Australian market, with our solution installed at the 30 MW / 30 MWh Ballarat battery-based energy storage facility. Fluence is currently providing a 150 MW / 150 MWh energy storage system at the site of the former Hazelwood Power Station in the Latrobe Valley, Victoria, as well as a 50 MW / 50 MWh storage system in Broken Hill, New South Wales. In addition to supplying energy storage and related services, Fluence also supplies the Fluence Mosaic bidding application, the NEM's most widely adopted optimisation and bidding software application for semi-scheduled renewable generators and scheduled battery-based energy storage systems.

Fluence welcomes the opportunity to comment the Energy Security Board's (ESB) 2022 Capacity mechanism High-level design paper. Fluence is concerned the capacity mechanism in its current state is not fit-for-purpose. It may not adequately incentivise new investment in dispatchable resources, increased complexity, doesn't guarantee plant availability and may not help achieve Australia's emissions reductions ambitions. One catch-all, complicated mechanism may be a sub-optimal solution for all problems. We alternatively support unbundling underlying issues - such as driving new investment and managing orderly coal plant exits - and applying separate, fit-for-purpose solutions to each.

Investment signals for new dispatchable resources may not be adequate

The NEM requires immense volumes of new investment in flexible, dispatchable resources, yet current market signals may not be adequate for sufficient capacity to reach financial close. Instead of driving more capacity, the capacity mechanism may instead create more business case uncertainty and stall investment, rather than encourage it when it's needed most. The current mechanism structure could also increase uncertainty of coal plant retirement dates, which could further undermine business cases for new capacity. Revenue models generally rely on forward curves that are significantly changed by plant retirement dates.

Further, the level of complexity of a fundamental market redesign could mean it takes significant time to implement and entails major regulatory intervention such as altering the Market Price Cap, changes to rules and laws. The complexity and increased uncertainty may risk discouraging capital away from the NEM to other markets around the world. It's unclear if the timeline to implement the proposed mechanism will be feasible and will solve the problems it was designed for within the decade.

Ministers should consider policy reforms that could be rolled out relatively quickly

A preferred approach would be to focus on targeted policy mechanisms to expedite the delivery of sufficient renewable generation, storage and transmission to meet customer demand whilst managing coal plant exits. For example, to support storage investment, Ministers could direct the Department of Climate Change, Energy, the Environment and Water to work with the Clean Energy Regulator, to develop a mechanism such as a storage target, similar to the RET-based design proposed by the Victoria Energy Policy Centre.¹ It has been considered by other industry participants that if the proposed capacity mechanism is simplified and includes eligibility criteria for emissions and ramp speed, it may indeed resemble a storage (or flexible capacity) target mechanism. Fluence looks forward to working with the ESB to better understand if this is possible.

Sincerely,

Lara Panjkov

Manager, Market Development

¹ Mountain, Bruce, Peter Harris, Ted Woodley, and Peter Sheehan. "Electricity Storage: the Critical Electricity Policy Challenge for Our New Government A Policy Proposal," n.d.
https://www.vepc.org.au/_files/ugd/92a2aa_3abddb7f37994760b86e0c921a692b5b.pdf.