

# Energy security board – Transmission access reform directions paper

## Flow Power submission

December 2022





## About Flow Power

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 of submission

The key points we would like to make regarding the ESB's directions paper are:

- + **A congestion relief market (CRM) is the best option for managing congestion in operational timeframes.** Noting the range of detailed design questions that need to be worked through, the CRM offers a compelling, non-disruptive option for addressing congestion. We do not support the proposition of a congestion management model (CMM) as a back-up option, given the significant concerns we raised with the CMM in our submission to the last ESB consultation paper.

While we are supportive of the continued development of a CRM, we encourage the ESB and Ministers to carefully consider the implementation timeframes. The directions paper raises multiple complex issues to be worked through. In addition, the ESB has committed to undertaking a cost-benefit analysis of all four options. Time will be needed to answer these questions and undertake robust analysis of the options. Given the materiality of these policy decisions, it is imperative that a decision is fully informed by necessary consultation.

In working through the detailed design of the CRM, the ESB should maintain that the CRM is opt-in for participants and seek to minimise basis risk for those not participating the CRM.

- + **A decision on an investment timeframe option should be deferred.** We consider the connection fee model to be the better option out of the two proposed but note both options will add costs and uncertainty to new renewable generators, including potentially significant protections to

incumbent generators. Instead, the short-term focus should be on how enhanced information can be provided to investors in an accessible manner and coupling this with the development of a congestion relief market.

We've provided some additional comments on various aspects of the consultation paper below.

## **Congestion relief market**

The congestion relief market represents a compelling option for managing congestion on the transmission network by allowing market participants to trade congestion relief where it is mutually beneficial. We support the continued development of a congestion relief market provided it:

- + Creates opportunities for storage and loads to relieve congestion and increase export from renewable generators by providing participants the ability to opt-in to trading in the congestion relief market.
- + Allows congestion relief to adjust dynamically to changes in network and market conditions.
- + Minimises the implementation costs and contracts market disruptions by avoiding the introduction of locational marginal prices and basis risks.

## **Congestion management model should not be default back-up option**

The ESB has flagged the congestion management model as a back-up option if the costs of a congestion relief market outweigh the benefits. We ask that the ESB:

- + Extend any consideration of costs and benefits to all models, not just the congestion relief market.
- + Publish and consult on the methodology behind the cost benefit analysis
- + Not default to recommending the congestion management model without further consideration of issues raised in response to the consultation paper.

The recent consultation paper published by the ESB contained significantly varied estimates of the implementation costs of CMM and CRM. CMM was estimated to only cost approximately \$10M, whereas CRM was estimated at \$300M. However, these estimates did not account for costs imposed on market participants. If these impacts are accounted for, the implementation costs of the CMM are likely to be orders of magnitude higher.

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



If the rebates are a poor risk management tool, the introduction of a CMM 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, particularly given the recent trend for customers and retailers to sign long-term power purchase agreements. Trying to account for unclear, significant future regulatory change or change in law impacts the ability for counterparties to enter contracts that extend for up to 10 years. It is time consuming and costly to anticipate all the potential outcomes of a CMM reform and then allocate those risks amongst the parties.

Further, we are particularly concerned with the implications for future investments and the potential reduction in contract market liquidity if the congestion management model proceeds. For example, there would likely 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, our products create direct linkages between customers and solar and wind generators across Victoria, South Australia, Queensland 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 with the introduction of the Federal carbon scheme. Flow Power 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.

For these reasons, we have strong reservations about the CMM as a “back-up” option. Instead, there should be further consultation on the CRM and cost-benefit analyses of all options.

### **Minimising basis risks**

As noted above, we have consistently raised concerns about the impacts of any basis risk arising from transmission access reforms. In the key design decisions raised by the ESB, basis risks exist where participants who have not opted into the CRM are exposed to locational marginal prices, even if this is just at the margin. For this reason, we strongly support retaining the pricing of metered generation output at the regional reference price instead of the locational marginal price. This will avoid creating basis risks and complex administrative and legal costs associated with resolving this risk.

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

Yours sincerely,

Declan Kelly

Regulatory Policy and Corporate Affairs Manager

Flow Power