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Lisa Shrimpton
Senior Advisor
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Dear Lisa,

Re: Review of reliability standard and settings guidelines

Thank you for the opportunity to make a submission in response to the Reliability Panel's *Review of the reliability standard and settings guidelines*.

Flow Power is a licenced electricity retailer that works with business customers throughout the NEM. Our model aims to give customers control over their energy costs through dynamic energy pricing that rewards flexible energy use. Customers can manage price volatility though physical or financial tools, including:

- A physical hedge in the form of a demand response or onsite generation (supported by our energy management systems).
- A financial hedge may include purchasing financial hedges from markets such as ASX Energy Futures or entering into a PPA with generators.

Our unique PPA model, Virtual Generation Agreement, plays an important role in supporting the development of large-scale renewables by providing price certainty and confidence to investors, and at the same time creating a product for business customers to access low electricity prices and take control of their energy costs.

Overview

The key points we would like to make regarding the Panel's consultation paper are:

- **The market settings are the primary mechanism for delivering reliability in the NEM**. The Reliability Panel has had a long-standing and clear role in reviewing the market settings and the crucial trade-off between power system redundancy and cost. This role is well understood by market participants and, despite contrary, unsubstantiated comments

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from the ESB, has supported investment in the NEM to date.[1] While this has clearly overlapped with government schemes and other forms of financial support, our experience has shown how the market price settings can facilitate load flexibility across a diverse retail portfolio.

Running parallel to this review, the ESB is considering changes to them NEM to support resource adequacy but have excluded factoring in changes to the market settings. This risks undermining the role of the market settings, and even contradicts the findings of the consultant employed by the ESB that found changing the market setting could support reliability.[2] We would encourage the Panel to engage with the ESB and promote this review as a comprehensive process for finding the most efficient and effective mechanisms for supporting reliability at lowest cost. We also encourage the Panel to highlight to the ESB the significance of this review prior to the ESB formulating its final recommendations for the post-2025 review.

- **There are new resources being developed of the supply and the demand side that support reliability**. With continued decentralisation and digitalisation, the spectrum of resources that can assist to maintain a reliable power system continues to grow. As a retailer and service provider, Flow Power has developed a portfolio of demand flexibility and behind the meter resources that all act to balance supply and demand. Further, the central principle of our retail electricity product is shifting demand to periods of lower pricing. These products are becoming more and more popular in the market, as purchasers look for savings while also supporting greater proportions of renewable generation. As Flow Power and similar businesses grow, the magnitude of these resources will continue to grow and their role in the reliability framework more crucial. Therefore, a key issue for the Panel to grapple with will be how to incorporate these resources that are dispersed, less visible, and tend to provide a probabilistic response to price. This trend toward decentralisation will accelerate and it will become more pertinent to factor this into long term system planning, and the market settings.
- **Technology neutrality is key to supporting competition and innovation**. It is increasingly important that the frameworks in the NEM that drive investment in, and operation of supply and demand flexibility, maintain a level playing field. As mentioned above, the existing reliability framework encourages us to work with our customers to develop a broad range of price-responsive capabilities. An underemphasised advantage of the energy-only framework is how well it supports innovative approaches to wholesale price risk management, which in turn supports the growth in innovative business models such as Flow Power's. We support the emphasis on technology neutrality and would highlight the risks of more prescriptive reliability frameworks indirectly favouring particular technology types.
- **Feel free to give us a call.** We are always available to discuss our views in more detail with the ESB and the market bodies.

We've provided some brief responses to the questions set out in the consultation paper below.

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[1] Simshauser P. and Gilmore J, 2020. *Is the NEM broken? Policy discontinuity and the 2017-2020 investment megacycle*, Working Papers EPRG2014, Energy Policy Research Group, Cambridge Judge Business School, University of Cambridge.

[2] FTI Consulting, *Resource adequacy mechanism in the National Electricity Market: A report for the Energy Security Board (ESB),* 16 July 2020.

Response to questions

- **Question 1**: We agree with the principles outlined in the paper. They are appropriate for the review of the market settings. However, we note that this appears to be different to the assessment framework used by the ESB to explore resource adequacy which has greater emphasis on loosely defined community expectations.
- **Question 3**: The unserved energy percentage is the most appropriate metric for the long term function of the reliability standard. We support retaining this metric.
- **Question 6 and 7**: We note that the administered price cap impacted our customers who had been providing demand response until the CPT was reached in Victoria in 2019. While some customers continued to provide a response, the APC is well below the marginal value of using electricity for many consumers, particularly after a prolonged period of having provided demand response.
- **Question 9**: We agree with the principles, but note that the Panel shouldn't be thinking specifically about investment in generation. The demand side has a growing role in maintaining the supply-demand balance and the Panel should be factoring in the role of the market settings in delivering investments on the demand side that support reliability.

If you have any queries about this submission, please contact me on 0418 166 217 or at Declan.Kelly@flowpower.com.au.

Yours sincerely,

Declan Kelly

Regulatory Policy Manager

Flow Power