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Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged electronically

18 May 2017

Dear Commissioner

RE: ERC0201: Five-Minute Settlement Rule Change

Flow Power supports the rule-change and appreciates the opportunity to contribute to this important area of market design.

Progressive Green Pty Ltd trading as Flow Power (formerly traded as PG Energy) is a licensed electricity retailer that provides Australian businesses with access to the wholesale market. Since 2009, we have been partnering with businesses across the NEM to give them control of their energy costs with expertise and technologies. As a business, we believe that traditional fixed rate electricity contracts blur the market signals provided by the NEM – driving inefficiencies and not maximising the opportunities posed by intermittent generation.

Broadly speaking, Flow Power supports the rule change with the rationale that we believe it provides:

- the right price signals to incentivise efficient consumption of energy
- smarter investment in generation and demand-side technologies

With an increasingly important role to be played by fast-response technologies and intermittent generation in coming years, Flow Power is supportive of promoting this introduction to the market. Flow Power expects the development of fast-start generation, battery storage and increased demand-side response mechanisms will streamline the removal of certain barriers within the AEMC paper.

However, we do recognise and acknowledge this transition will not be without challenges as well as opportunities, some of which we have highlighted as critical for our customers.:

Stronger market signals to customers

Additional pricing will drive more efficient wholesale market outcomes by providing incentives for supply to be responsive to demand over the shortest practicable timeframe and will drive more efficient wholesale market outcomes. This should lead to lower wholesale electricity prices over the long-term due to a better utilised and efficient system. Flow Power customers are encouraged to react to market signals through SMS and email alerts. Many business customers have reduced energy costs by up to 30% by taking control of their peak usage. However, it should be noted that up to 20% of market price events are missed because they occur at the very end of the half hour, preventing Flow Power initiating alerts in time – meaning customers are unavoidably charged the average rate for that half hour when operations are drawing their full demand from the market.

Increased volatility regardless of transition period

More volatility would be expected in the near term as wholesale market participants adjust their commercial operations (irrespective of the transition period). The current 30-minute settlement allows more smoothing of pricing across the retailer and customer payments.

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Technology neutral price signal

The five-minute settlement change will allow the financial market for electricity to be cleared on the same basis as the physical electricity market. This would provide an improved price signal that is technology neutral.

Greater investment in demand response mechanisms

Over time, we expect the five-minute price signal will lead to more efficient investment in generation assets and demand response mechanisms, giving the market the correct technology signals over the long term. As an active participant in demand response, we are already seeing a growing interest in businesses investing in new technologies for demand management. Over the next 6 months, we expect to install many more kWatch Intelligent Controllers on customer sites. This will enable auto-response to market signals from local generation and batteries. It will also facilitate and optimise the increasing intermittent generation sources in the NEM.

Additional costs on the system

The change could lead to the following additional costs:

- the impact on existing IT systems, metering infrastructure and financial contracts that reference the 30-minute settlement

- possible disruption to the financial contract market. It will reduce the supply of cap contracts offered in the market by peaking generators in the short term. This may make it difficult for emerging retailers.

With the 30-minute settlement, gas peaking generators can offer and physically defend these caps. A five-minute settlement brings uncertainty as to whether these generators can defend and offer the same volume of these contracts. We are yet to finalise the value of this impact but would be keen to discuss this in more detail with the AEMC.

Impact on Flow Power's Customers:

While the wholesale cost of electricity would be expected to decline over time because of the rule change if the improvements in market efficiency are captured, but as mentioned above, it may rise in the near term. This will impact the whole market as well as our customers.

This rule change may prevent some behaviours in the market (like late trading interval re-bidding by large generators), but will undoubtedly create new rebidding behaviours, meaning the impact on spot price outcomes may be mixed.

Flow Power customers accessing the wholesale market will benefit from any capability to reduce consumption at short notice. However, we are unclear as to whether this would include the need to be bid as a load. This may be as a result of avoiding exposure to short price spikes of 5-minutes duration, or alternatively, to capitalise on demand side management mechanisms and benefit financially from the reduction in load consumption.

Customers will face one off cost to upgrade IT and metering systems for the five-minute settlement so that the anticipated market benefits are fully captured. Under the AEMC's view, all customers would be required to upgrade existing IT and metering systems.

Flow Power is committed to the ongoing development of the National Electricity Market. If there are any questions, please contact Liz Fletcher on 0417 080 535.

Your sincerely,

Matthew van der Linden
Managing Director, Flow Power