

12 February 2021

Dr. Kerry Schott  
Chairperson  
info@esb.org.au

Dear Dr Schott,

## Re: Consultation paper on interim REZ framework

Flow Power welcomes the opportunity to make a submission in response to the interim renewable energy zone (REZ) framework.

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 through 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

One of the key challenges for the NEM is determining how the transmission network is planned, built and used in a manner that minimises costs imposed on customers, while also enabling the transition to a power system dominated by renewables.

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've observed a

### NSW

Suite 2, Level 3  
18-20 York Street  
Sydney NSW 2000

### ACT

Suite 2 Level 2  
1 Farrell Place  
Canberra ACT 2601

### SA

Level 24 Westpac House  
91 King William Street  
Adelaide SA 5000

### QLD

Level 19  
10 Eagle Street  
Brisbane QLD 4000

P 1300 08 06 08

E [go@flowpower.com.au](mailto:go@flowpower.com.au)

W [flowpower.com.au](http://flowpower.com.au)

strong appetite for continued investment in these resources, significant upgrades to the network will be needed to facilitate and support this transition.

The key points we would like to make in response to the consultation paper are:

- + **We support the development of renewable energy zones.** Flow Power supports the development of transmission infrastructure necessary to allow new supply into the market. We consider the long lead times on developing new transmission projects to be the most significant challenges for developing new supply. Of the access framework options outlined in the consultation paper, we are most supportive of options 1 and 2. However, we note it would also be possible to run tenders for access to a renewable energy zone without allocating access rights.
- + **The existing access framework has advantages.** We acknowledge there are challenges arising from disorderly bidding under the current framework. However, the status quo does have locational incentives though the allocation of loss factors transmission framework and these congestion risks are well understood by investors. The status quo does also allow for a liquid hedging market between generators and customers because there is a common regional price. Moving to a more complicated access framework, even just within a REZ, may increase the operational complexity, particularly for smaller market participants.
- + **There is a cost when increasing complexity.** Proposals that introduce locational marginal prices, and financial transmission rights will come with a significant increase in the level of complexity associated with being a market participant. These complexities are likely to be disproportionately borne by smaller participants, resulting in barriers to entry and diminished competition amongst project developers, generation owners and retailers.
- + **We do not support a long-term transition to COGATI.** We have outlined our concerns with COGATI in previous submissions to the AEMC.

We have provided further comments below on:

- + Our preferred options from those described in the consultation paper.
- + Why we do not support a long term move towards the introduction of COGATI
- + Timing for progressing REZ reforms.

## Our preferred approach

The ESB's consultation paper listed four options for how access rights could be attributed to generators connected within a REZ:

1. Connection access protection model
2. Financial access protection model
3. Establishing each REZ as a NEM region
4. An early allocation of financial transmission rights.

Out of these options, our preference is option 1 and option 2. These options are simpler than options 3 and 4, and are not contingent on subsequent reform or significant systems changes.

Option 1 appears workable if guidelines can be established for allowing an efficient level of congestion to occur within the REZ. Option 2 seems to provide the most flexibility in terms of risk management, secondary trading and liquidity.

With options 1 and 2, some questions that need further exploration include:

- + What occurs if the REZ is oversubscribed?
- + What happens in a successful tenderer is unable to proceed for any reason?

We also note that it possible to have a REZ framework that does not consider a localised access framework for connecting generators. There are other benefits to being connected within a REZ that would lead to prospective generators tendering for access. For example, as noted in the paper, there would be opportunities to develop system strength for a REZ in-line with the AEMC's proposed approach to managing system strength. In addition, there is the potential for a faster connection process connecting within a REZ. Therefore, it would be possible to allow market participants to tender for connection rights within a REZ without an access framework. This would likely diminish the tender auction revenue, but would be more consistent with the status quo, reducing complexity and unintended boundary effects between a REZ and the rest of the shared network.

### **Do not support long term move towards COGATI**

We are not supportive of a long-term move towards the introduction of the COGATI reforms. Our key concerns with COGATI are:

- The introduction of a new pricing risk that was not contemplated when many market participants, including Flow Power, entered into long-term financial contracts. If COGATI were to proceed, it could require reopening of these contracts which presents very material risks to our business and our customers to whom we 'pass-through' those positions to. While we expect that change in law and / or market disruption events may respond in many of the agreements we have with renewable generators, derivative counterparts and end consumers, this will be a costly and time-consuming process. Further, the change in law and market disruption provisions vary considerably from agreement to agreement, so we think there will be a number of instances where the agreed contractual mechanism places one party in a significantly worse commercial position.
- The introduction of dynamic regional pricing would have an adverse impact on the liquidity of the contract market and PPA market. Well-functioning contract and PPA markets are key for allowing smaller retailers to enter the market and grow. The additional complexity in the form of nodal pricing and financial transmission rights would make it harder for a seller to find a willing counterparty. This would reduce liquidity for PPAs and other contracts, and slow the development of new projects. While there have been growing challenges to be managed between buyers and sellers, such as MLFs, we have found these risks are now much better understood by market participants and priced appropriately. The introduction of transmission access reform risks making entering into these contracts more difficult, impeding effective retail competition.
- The additional complexity of the reform may disproportionately affect smaller market participants i.e., smaller innovative retailers and smaller project developers. Larger retailers, gentailers and generators with a large portfolio can better spread this risk and they also tend to have more sophisticated teams for managing operational complexity. The new pricing risks introduced in a dynamic pricing regime may consequently impose a greater proportion of costs on smaller, innovative retailers and project developers including Flow Power.

## Timing of project

We also note that the timeline in the REZ paper provides limited opportunity for the ESB to respond to stakeholder feedback, let alone consider models outside of those listed in the paper. We would suggest the recommendations made by the ESB to National Cabinet relating to REZs are delivered alongside the recommendations for the rest of the ESB 2025 process.

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 Manager  
Flow Power