

26 July 2018

Mr John Pierce
Chairman, AEMC
Level 6 201 Elizabeth Street
Sydney NSW, 2000

Dear Mr Pierce,

Re: ERC0237 AEMO's high-level enhanced RERT design

Flow Power is pleased to have the opportunity to provide input on the proposed rule amendment for Enhancement to the RERT design. As a business that participated in the RERT in SA, Vic and NSW last summer and has been implementing demand response for more than ten years, we have a unique view. Our business outcomes, which are projected to have continued and rapid growth moving forward, are clearly demonstrating the increasing value being obtained through (C&I) customers being “connected to the market signals”.

Further details about who Flow Power is and how it operates in the market can be found on our website. Flow Power is playing an important role in supporting the growth of demand response.

It is our firm belief that this will increasingly provide substantial value to business customers (by prioritising operations based on their business requirements and pricing profile) and to the market. Any change must act to support and further enhance price signals to allow the market to be as efficient as possible. It is important (and unclear) to ensure this will integrate with the National Energy Guarantee.

Flow Power has the following top level thoughts:

- The RERT should remain a “backstop” for managing the market rather than being relied upon.
- It should be designed in such a way that the market (both supply and demand) has the space to respond to the market signals before RERT is triggered.
- Transparency and efficiency should be prioritised in any changes made.

We thank the AEMC’s open approach to working with us over the process of this design.

If you have further questions please contact Liz Fletcher on 0417 080 535 or email liz.fletcher@flowpower.com.au

Kind regards

A handwritten signature in black ink, appearing to read "Matthew van der Linden".

Matthew van der Linden
Managing Director
Flow Power

Detailed Response

The following responses are in relation to specific concerns noted above and throughout the draft detailed design consultation paper. Our responses follow the same basic notation as the paper for simplicity with the corresponding reference to the consultation paper.

Question 1: Assessment framework

Flow Power supports the broader assessment framework in assessing the need to procure RERT from the market as well as AEMO's recommendation to procure volume 1-3 years out. We also believe the decision to reference the risk of unserved energy, not just the "expected" value is productive.

Question 2:

Customers prefer certainty to allow them to plan to provide capacity rather than short term contracts. The same customers also want different variations of payments and as such, providers should have the flexibility to tailor payments. This allows customers to make investments towards technologies and it will in turn grow the demand response market in Australia.

However, to minimise the cost to users it is important that the balance between availability and activation payments is managed. Flow Power would suggest that this is done in line with the length of contracts/lead time provided to customers.

We look forward to seeing AEMO leverage both the short and long term procurement process or the ability to re-bid capacity to "top up" any shortfall closer to the actual time that RERT may be required when AEMO has more visibility in the market.

Question 3:

As above Flow Power support multi-year contracting periods, this allows customers to make longer term investment decisions around providing the capacity. Noting however we would recommend that longer term contracts would have no or low availability costs to minimise any unnecessary cost to the market.

Question 4:

We acknowledge the complexity in operationalising the reliability standard. Taking this top level measure to the day-to-day management of the system is an ongoing work in process that should be worked through in line with stakeholders regularly. We would agree with ERM in saying that this is a binary outcome – it is either met or not met.

Question 5:

Flow Power believes that the system will become peakier. However, we don't believe that a tighter reliability standard will resolve this.

We believe that it will be important to ensure both supply and demand side is connected to the market signals so that they can respond before the RERT "backstop" is activated. This will result in lower cost electricity and market driven outcomes. In fact, Flow Power has previously suggested that increasing the market cap would allow for stronger signals, minimising costs and the need for market intervention.

This trend is evident in the shift towards new technologies and it is important that this enhancement does not extinguish the market's ability to drive innovation.

Question 6:

We would reiterate the need for simplification, transparency and efficiency in the market. We would oppose any changes that would add additional complications to the system or blur the signals to users.

Question 7:

AEMO's role in keeping the system secure is integral. We would not make comment on this topic other than to reiterate the framework points made in Question 2.

Question 8:

The RERT should remain a backstop in the market to minimise over use. While it is an important tool for AEMO to manage reliability, it is important that the market is given space to develop. The trigger of LOR2 was a functional way to drive demand response this summer. However, it is possible that this did not give both supply and demand enough of a chance to respond before the RERT was triggered.

Question 9:

The reality is that the RERT framework is evolving alongside Australian power market and the NER. Consumers are just learning about what it means for them and how they can be involved. More transparency would be supported by Flow Power to enable us to explain both the costs and the benefits to users. Over summer AEMO actively promoted the work done by users as part of this program and was very transparent about the volumes.

In terms of the best link between the trigger and volume, we would recommend that this would be a work in progress that ensures the best outcomes between cost and benefits. In theory, it should become less required over time rather than something to be relied upon into the future.

Question 10:

We would recommend the cost minimisation approach outlined in the Consultation Paper.

Question 11:

While simplified process for products could drive competition, putting it in the NER could stifle the ability to innovate. Standardisation of products could be driven by AEMO in a similar way that was done as part of the ARENA/AEMO trial. However, it would be good to see it done with stakeholder input.

Question 12:

Flow Power is a true believer in the value of a market based system. In turn, if AEMO follows a cost minimisation process for setting the volumes for procurement, further governance shouldn't be required. It is possible that it would just add further cost. In saying that, we would repeat that transparency is pivotal in the evolving Australian power market.

Question 13:

We support the three notification periods detailed in the paper, assuming that they have adequate pre-activation period. However, as per our answer to Question 11, enshrinement in the NER could make it difficult to change if a better solution was identified in the future.

Question 14:

Flow Power believes that the RERT should remain technology neutral to ensure that it can be leveraged by new technologies entering the market.

Question 15:

Customers who are exposed to the market signals are not contracted nor obligated to respond. Customers may choose to curtail for a variety of different reasons. Our experience over this past summer has shown that many who would not have normally responded, or who were actually hedged, choose to participate when called under RERT. This provided support to the market at a time that it was most needed. It has also enabled us to introduce more businesses to the idea of demand response – building the market.

Any change made through this proposal should not penalise or advantage one form of purchasing electricity over another – whether it is through a fixed rate contract or wholesale. Any step towards this would lose the benefits of an increasingly responsive demand base to lowering power prices.

The increasing penetration of intermittent technologies will drive the requirement for users to shift load in line with the output of generation. This is an added benefit to those who are price responsive and the market more widely.

It should also be noted that the correlation between RERT and high prices is not 100% and therefore you can't rely on those in the wholesale market to deliver responses. We would also raise how this will integrate with the NEG.

Question 16:

Flow Power supports the product specifications and standardisations but we do not support the inclusion into NER. Refer response to question 11.

Question 17:

There is a balance to be found between AEMO's suggestion to reduce availability payments and opposing views in order to drive customer investment. This is in line with our comments above. As per our other comments, we would be wary of prescription in the NER.

Under the ARENA/AEMO trial, commercial and industrial customers were attracted to the high availability payment but were wary of the low activation payments. However, as our experience this summer was in NSW, where no event was called, this was not an issue. We would suggest that higher activation payments are necessary for an ongoing program to continue the "carrot" based approach to building demand response in Australia.

Question 18:

As per previous responses, the RERT plays an important role but it is important that the least cost solutions have time to play out before it is triggered. This will minimise the need to worry about in market or out of market distortions.

Question 19:

No response