



**Edge Utilities**  
Quarterly Report  
Edition 2 – October 2020



Hello and welcome to the Edge Utilities Quarterly Report!

Here at Edge Utilities, we specialise in delivering enterprise buying power to businesses, Strata and Body Corporates.

With over 20 years' experience in the Hotel, Strata and Body Corporate Industries, I not only know how crucial it is to be able to secure a superior deal, it is just as critical to business profitability and performance, whilst ensuring value for owners and investors.

Utility markets are dynamic and complex. A simplistic brokerage service fails to manage market risk, often resulting in contract rates being higher than they need to be.

Edge Utilities was created to bring the sophistication of wholesale trading and risk management to retail brokerage deals. We deliver the expertise, know-how, and buying power of Australia's largest independently managed energy portfolio, to the broader business, Strata and Body Corporate communities.

Backed by Edge2020, who are a portfolio management, trading and brokerage business for large energy users, retailers, and renewable generators.

The Edge2020 team are highly experienced energy professionals, with diverse backgrounds in back, middle, and front office roles. With over \$1 billion under management, our team operate in a high risk, high pressure environment. Each decision can mean the difference in saving or losing millions of dollars.

We invest heavily in our people, our systems, our processes, and specialist independent third-party quantitative experts, to give us every opportunity to get decisions right.

Our team becomes your industry-based team of experts, on hand to inform, educate, assist, and act when required.

This is why we have decided to share the Edge Utilities Quarterly Report. This is a resource that educates you more about the energy and utilities market, in turn, helping your business, Strata or Body Corporate. The report consists of an educational segment, market information (such as movements and forward fundamentals), and the occasional profile piece.

Partnering with Edge Utilities is an unprecedented opportunity to minimise your utility costs. We are here to help and our team look forward to working with you.

Kindest Regards,

A handwritten signature in green ink, appearing to read "Lolita Sillars".

**Lolita Sillars**  
National Sales Manager

Edge Utilities



## Energy Brokers

We found an article on a retailer's website titled "Do you use an energy broker? Read this first". So we decided to ask our Managing Director, Stacey Vacher, what she thought about this topic. Stacey has over 15 years experience as a senior energy professional, working with some of the markets largest and most sophisticated energy users.

### **In the context of consumer procurement, in your view what is the difference between energy brokers and energy consultants?**

Energy brokers negotiate deals between buyers and sellers. An energy broker will go to market, often by way of tender, for a consumer's energy requirements at any given time. They review and present options to the consumer for their selection. A broker lives and breathes tenders and transactions day in day out.

A reputable energy broker knows energy markets, energy products, and which energy provider can provide the best outcome for a given customer, product, and / or portfolio. They can perform market analysis, manage the entire procurement process, and negotiate superior commercial and contractual outcomes. A broker of this nature lives and breathes energy markets, energy products, market participants, and energy deals, day in day out.

Energy consultants can offer an array of specialist energy services, from brokerage, trading, strategy development and implementation, regulatory advice, energy efficiency and sustainability advice, price forecasting, and so on.

### **Should a consumer use a broker or a consultant?**

It depends on what a consumer is trying to achieve. If the objective is to achieve the best deal at the time, a brokerage service can be the most efficient and effective service. If it's understanding options and what may be the most optimal approach and outcome relative to the objectives of the consumer, a consultant may provide a superior outcome (or in the very least, a reputable energy broker).

Regardless, using an expert to navigate the market and provide specialist advice is likely to result in saving a consumer time, headaches, and money.

My advice? Source and use a reputable broker or consultant with an experienced and established team behind them. Look for a broker or consultant that is focussed on you – your knowledge, your objectives, your value. A good broker or consultant utilises their knowledge, expertise, and industry partnerships to deliver optimal outcomes to you, the consumer.

### **Why do most Retailers work with brokers and consultants?**

Retailers utilise brokers as a channel to market. They may also agree to provide the service of sleeving fees to consultants, especially in situations when consumers prefer this approach.

Brokers and consultants can ultimately protect a retailer by ensuring a consumer makes independent and informed decisions. Retailers won't provide financial advice to consumers as often their Australian Financial Services Licences don't allow them to do so.

Brokers and consultants can also protect a retailer from the intensity of consumer education and enquiries.

### **Do retailers prefer to deal with consumers directly or through brokers or consultants?**

I have asked many of our retailer counterparties this question over the years. It's fair to say retailers ultimately prefer to deal with a consumer directly. They have more control over what customers do and what the retailer can achieve. This includes price / fees, products, risk, and contractual flexibility.

Many retailers, however, will work with brokers and consultants. They'll acknowledge the benefits a third party brings to their relationship with a consumer and respect the role of the broker or consultant working directly with them to deliver their service to the consumer.

Specifically relating to brokerage services, where often the fees are passed through the retailer's invoice, we are starting to see larger retailers be a lot more selective with respect to who they will work with. We support this move for many reasons. But mostly because it means the retailer is more serious about ensuring the broker understands the retailer's products and objectives, and ensuring the

broker is introducing consumers and opportunities that stand to benefit from them.

The blanket approach by some brokers of going to retailers to make up numbers in a tender is lazy and ineffective. Brokers should be looking to bring parties together that both stand to benefit from the transaction, in a superior competitive process whereby all counterparts are genuinely well positioned to provide the product and / or service to the consumer.

### **Should brokerage / consultant fees be transparent?**

All fees should be transparent. But don't expect transparency across the market.

Our brokerage clients know we are engaged on the basis of getting paid via third-party fees. This is disclosed when retained to provide our service.

When an existing client isn't paying a fee for service, or seeks services out of scope, we ensure the client knows in writing that a deal tabled to them contains brokerage or commission fees. We will also disclose the quantum of the fee.

Lack of transparency of brokerage fees is often criticized. As we saw in a retailer's "Do you use an energy broker? Read this first". What's interesting about this, is a retailer's fees are unlikely to be transparent, but rather rolled into the energy rate. Retailers will also often secure fees on metering, with zero transparency that they are doing so. Whilst brokers are expected to outline exactly what percentage, c/kWh, or total quantum of fees are in a deal. This is a double standard that isn't going away.

What is more frightening however, is lack of transparency around risk. We are seeing more and more retail products in the market, as retailers jostle for market share. Especially around spot and renewable backed products. Some of these place an exorbitantly high risk on consumers, which can ultimately result in volatile and high cost outcomes. Fees are not the fundamental issue for consumers, risks are, as many can result in much higher cost outcomes.

### **Why should a customer use a broker or consultant anyway?**

If you don't use a reputable broker or consultant, there's a good chance you won't receive the most competitive offer from your retailer. You will potentially expose yourself to higher costs and / or risk and / or inflexible contractual terms.

It's the broker / consultant's job to get the very best deal possible, considering commercials, risks, and required contractual flexibility.

## **National Electricity Market**

The impact of COVID-19 has had a significant impact on the Electricity spot price across the NEM, with prices falling by almost 50% compared to the same time last year and the lowest level reached since 2014.

Queensland's Q320 spot price averaged \$32/MWh, the lowest average price achieved for any region across the NEM. These low prices resulted from an increased penetration of renewable generation, low gas prices allowing cheaper Gas Powered Generation (GPG), a resultant shift down in the offer prices for coal fired generation and a reduction in operational demand by 1.4%.

Electricity is not the only market to drop significantly, with the wholesale gas market dropping a comparable 50% to the low gas prices seen in 2015. Gas prices dropped the most in Queensland with the Gas Supply Hub (GSH) average reaching \$3.85/GJ. The drivers for the low gas prices were the linkage of the domestic gas market to the international markets. The international gas market, primarily the Japan Korea Marker (JKM) resulted in a net back price of \$2.60/GJ.

The state most impacted by COVID-19, Victoria, experienced larger falls in demand and a change to the consumption profile of both Electricity and Gas. It looks like Victorians shifted their consumption as a result of working from home by not using comparable amounts of energy during the morning peak but shifting the usage two hours later in the morning. Household gas usage also increased due to more people at home during the day.

The continue growth of renewable generation from roof top PV is helping in setting all time minimum demand records with South Australia leading the state with a minimum demand of only 379MW.

Solar and wind also continues to grow, however this is causing issues for system strength. Renewable generation in Queensland particularly North Queensland was impacted by system strength constraints resulting in these generators being curtailed by almost 6%.

Hydro generation has also dropped with drought conditions impacting the generation from run of river hydro stations with the largest impacts being seen in Tasmania with Hydro generation in that state the lowest since 2008.

The suppressed spot market prices continue to flow into the futures market, with prices falling across the quarter reaching their lowest prices at the end of the quarter before the market firmed as traders hope the impact of COVID-19 is minimising.

With the changes to the energy mix and the increase penetration of renewable energy into the grid, the resulting Frequency Control Ancillary Services (FCAS) requirements have increased. However, lower requirements for contingency FCAS serves particularly in South Australia, has resulted in reduced costs. Total system costs have reduced to \$35 million, compared to \$62 million in the previous quarter and over \$300 million in Q120. The cost of directions has also decreased to \$8 million. As a result of the system strength constraints the curtailment of renewable generation has increased by 28% to \$8 million.

### Weather

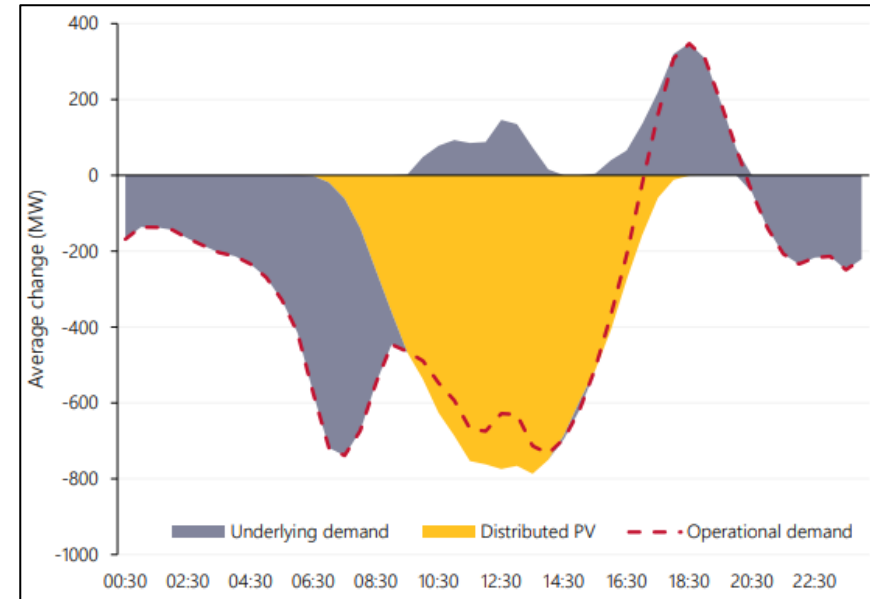
Q320 has seen warmer than average temperatures across all east coast capitals, apart from Hobart. Average maximum temperatures in Melbourne and Sydney were above the 10-year average by 0.2°C, seeing heating requirements decrease.

### Electricity Demand

Warmer weather resulted in decreased heating requirements, which in turn, slightly decreased energy consumption. The increased penetration of rooftop PV also significantly reduced the operational demand with a quarterly decrease of 1.4%. The drop in demand was mostly driven by the continued industry downturn as a result of COVID-19.

Victoria saw reductions in the underlying demand of -90MW followed by Queensland at -52MW.

South Australia's underlying demand grew by 52MW as a result of an increase in heating load and increased industrial consumption.



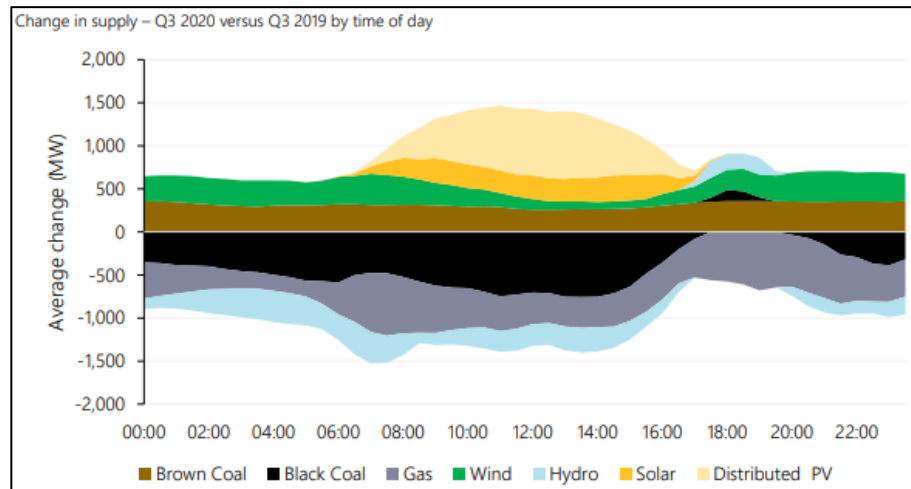
### NEM Spot Prices

NEM spot prices have dropped significantly from the two previous quarters, around 50% below the same time last year. Queensland spot prices dropped to \$32/MWh for the quarter, this was the lowest average NEM price since 2014. Queensland was not the only state disadvantaged, all other NEM states fell to lows not seen in the last 5 years.

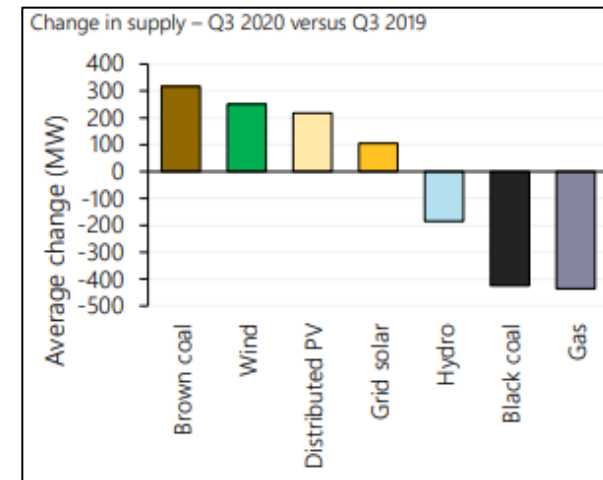
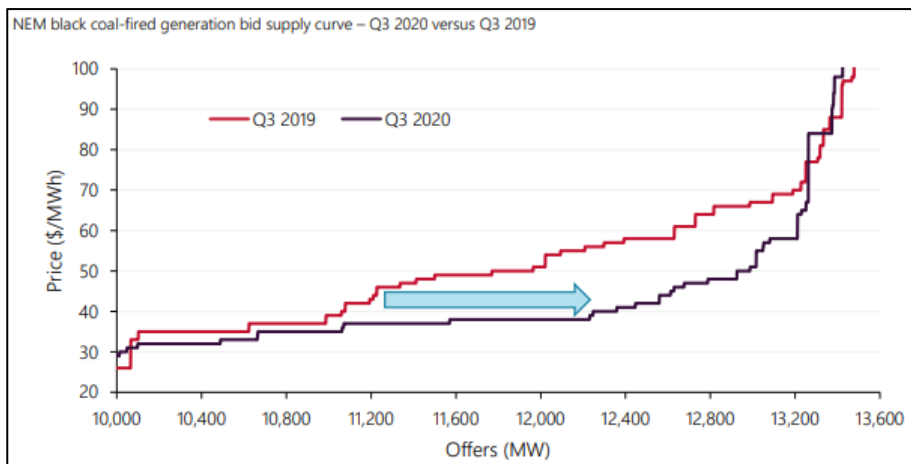
The price profile has not changed significantly since the previous quarter, with low prices occurring in the early hours of the day and around midday. Price volatility has also dropped over the last quarter.

The increased solar penetration has seen a greater occurrence of negative prices, across the NEM negative prices occurred 4.6% of the time while in South Australia they occurred 10.2% of the trading intervals and in Queensland this happened 8% of the time compared to 4.5% of the time a year ago.

## Generation and Offer Prices

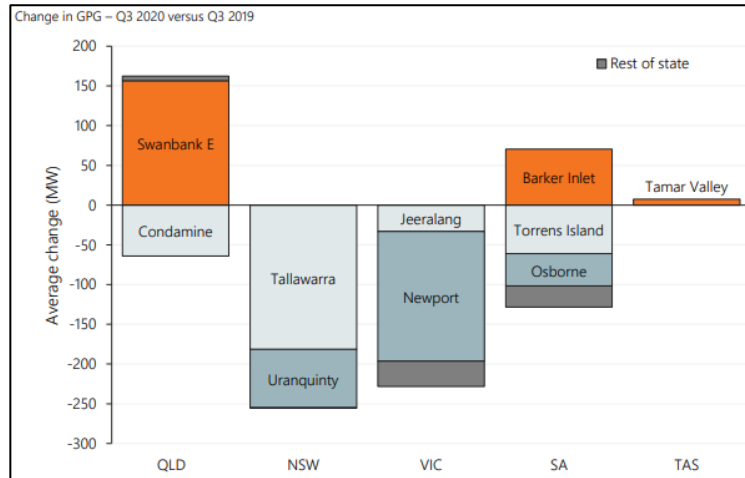


Low spot prices across Q3 2020 have forced thermal generators to operate close to their minimum loads throughout the NEM. The reduction in generation was partially because of units running at minimum load, however outages at Tarong and Callide were extended to reduce exposure to low prices.

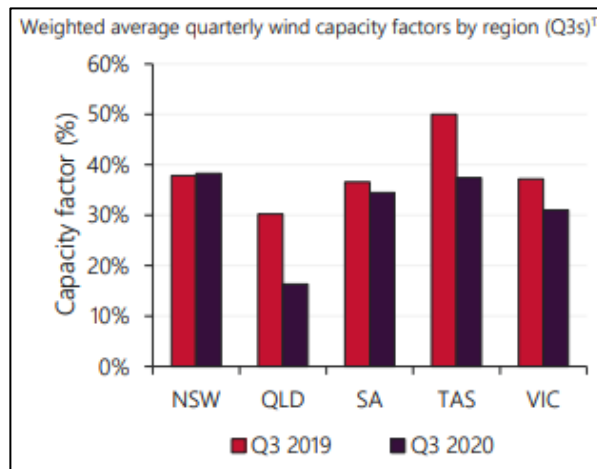


As a result of decreased water storage levels in Tasmania and Victoria, hydro generation in those regions, also decreased. Queensland and New South Wales dropped, as dry conditions impacted the Queensland Northern hydros, and in New South Wales the catchment levels remained low.

While the cost of domestic gas was impacted by COVID-19, GPG has been affected differently across the states. In Queensland, GPG was bid below \$40/MWh based on historically low gas prices. This resulted in Swanbank E and Darling Downs adding over 370MW of generation to the grid versus the same time last year. Across South Australia, Pelican Point and Torrens Island reduced output as renewable generation gained more market share and the newer Barkers Inlet station displaced the older gas fired units. In Victoria, GPG was displaced by renewable generation and imports from Tasmania.



The installation of Wind and large-scale solar generation continue to increase quarter on quarter. Variable Renewable Energy (VRE) intermittent generation from Renewable energy resources, such as solar and wind, met 35% of the NEM operational demand in September 2020, with wind reaching a maximum output of 5,198MW across the NEM in August 2020. Even though average wind generation is steadily increasing the impact of lower wind speeds and curtailment, due to system strength constraints is reducing the capacity factors achieved across the NEM.



Battery revenue across the NEM has dropped by \$6.1 million largely as result of lower FCAS prices which historically make up the majority of batteries revenue. As electricity prices fall the revenue made through arbitrage is currently 21%.

### Emissions

NEM emissions have dropped to record lows for a Q3 despite total emissions increasing by 0.7 MtCO<sub>2</sub>-e in the last quarter as a result of the increased generation from Brown Coal fired generation.

### ASX

The futures market was influenced by lower spot market, gas prices and the predicted increases in renewables, rooftop PV, on top of the ongoing impact of COVID-19.

At the end of Q3 the futures market firmed as traders look to positive indicators that the impact of COVID-19 will not remain as long as previously expected.

For next years products, New South Wales, Victoria and South Australia are trading in a tight range around \$55/MWh while Queensland remains the lowest region trading in the low \$40/MWh's as a result of the low and negative prices experienced in recent times.

## Think. Act. Save.

The world has certainly changed this year. So many aspects of our lives have been altered by something we can't control and left us wondering if things will ever go back to normal. While this has brought trouble and uncertainty, it has also given us a chance to pause. And **Re.Think**.

**Re.Think** how we connect with people.

**Re.Think** how we do business.

**Re.Think** how we spend our time and our money.

Maybe some things don't need to go back to normal?

At Edge Utilities, we've used this time to **Re.Think** how we can help businesses, Strata and Body Corporates take back control of their utilities contracts.

We've refined our offering, and our brand. And we're standing by to help you secure the best value utilities solutions on the market.

Are you ready to **Re.Think** your utilities contracts to save money and get better value?

Connect with Edge Utilities

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