



Edge Utilities Quarterly Report

Edition 1 – March 2020



Hello and a very warm welcome to Edge Utilities!

With 20 years of experience in engineering and applied finance in Europe and Australia, I am beyond passionate about financial markets. In 2007, after a period managing sophisticated procurement for a large retailer and some of the country's largest energy users, I launched an independent energy management company Edge Energy Services. Now Edge2020, we 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.

Edge2020 is a small business managing big business. We operate under an Australian Financial Service Licence (AFSL) covering electricity, environmental and carbon products for wholesale clients. We maintain an ISO9001 Quality Management System, with a focus on managing risk and delivering to the highest possible standard. We have built strong working relationships with most major generation and retail counterparties in the National Electricity Market, and wholesale trading entities in Australia, including many renewable generators.

This year we have been focused on the launch of Edge Utilities. It is not only enterprise clients who require the know-how to lower their energy costs. It is equally as crucial for businesses, Strata and Body Corporates, looking to reduce electricity, gas, and / or hot water costs. Edge Utilities was created to bring more value to energy brokerage in this market segment.

Edge Utilities brings the sophistication of wholesale trading and risk management to retail brokerage deals. Leveraging the expertise, know-how and buying power of Australia's largest independently managed energy portfolio, we help businesses, Strata and Body Corporates pay less. Our team are also at your disposal, for when you need assistance in understanding anything relating to your invoices, costs, or energy markets.

We are here to help. We will use the Edge Utilities Quarterly Report as a conversation starter for doing just that, helping your business. It will consist of an educational segment, market information (such as movements and forward fundamentals), and the occasional profile piece. We aim to make you think, encourage you to act, and most of all, we want to save you money.

Our team look forward to working with you.

Kindest Regards,

A handwritten signature in green ink, consisting of a stylized 'S' followed by a horizontal line.

Stacey Vacher
Founder & Managing Director

Edge 2020 (formerly Edge Energy Services)
Edge Utilities



What goes into a bill?

When we think of our electricity bill, we think of the cost of the electricity we are using as the cost we pay our retailer. But this is not the only portion of your bill.

Electricity costs are made up of several elements, retailer energy costs, environmental liability, network costs, market costs and metering costs. Some of these are within your control and some are regulated and pass through to the end user.

You can pay more depending on your geographical location, payment method and the type of tariff you are on. In this article we will investigate each of these cost elements and what we can do to help you manage your bill.

Retailer Energy Costs

(negotiated/manageable)

The wholesale price of electricity (and gas) goes up and down throughout the year. Most retailers buy their energy well in advance. If the company is vertically integrated, it can also be linked to their marginal cost of generation.

Traditionally you will have these sourced as fixed retail pricing from retailers. Retail prices are driven by the wholesale forward contract prices, with margins. Pricing differentiation between retailers comes from a retailer's ability to secure competitive wholesale pricing, and/or manage their overall portfolio's trade book, and/or manage additional margins.

Environmental Certificate Costs

(negotiated/manageable)

These are required under the Renewable Energy (Electricity) Act 2000 in the form of Large Generation Certificates (LGCs) and Small-Scale Technology Certificates (STCs). These are traditionally sourced as fixed retail pricing from retailers.

Pricing varies between retailers, depending on their approach to securing and trading environmental certificates in the wholesale market and any administration fees they wish to impose.

Network Costs

(regulated, pass-through at cost)

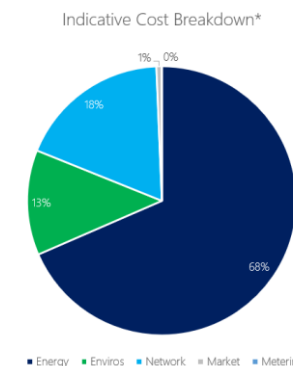
A retailer must pay network operators for the use of the distribution and transmission networks to get the Electricity and gas to your meter. The network operators build and maintain the equipment which is used to distribute the energy across Australia.

These companies are regulated, and whilst customers can participate in the regulated pricing process through stakeholder feedback, the final approved prices are not negotiable. Network costs are passed through by all retailers at cost and are not a point of differentiation between retailers.

Market Costs

(regulated, pass-through at cost)

These are charges levied by the Australian Energy Market Operator (AEMO) to registered market participants for AEMO to manage the power system safely, securely, and reliably (both technical and financial management). Market costs are passed through by all retailers at cost and are not a point of differentiation between retailers.



Metering Costs

(negotiated but negligible)

These can be negotiated and savings of <\$1000 per annum per connection point can be achieved. These charges are negligible to a large user with few connection points, however those users with many connection points can significantly benefit from these types of agreements.

Edge actively monitor these markets to ensure our clients are on the best tariff possible and can offer superior products and savings to smaller C&I and/or larger C&I looking for simpler contracting solutions.

National Electricity Market

The first quarter of 2020 (Q120) has seen the lowest wholesale electricity and gas prices in the National Electricity Market (NEM) since 2016. Some key drivers include:

East coast wholesale gas prices averaged \$5.63/GJ, down from \$9.75/GJ in 2019.

- Lower gas prices are a result of higher gas volumes from QLD production facilities
- Falls in the international gas prices and falling NEM spot and contract prices.
- Drop in spot prices due to a reduction in operational demand, lower gas prices and a change in bidding behaviour
- NEM average operational demand dropped by 4% (688MW) while rooftop photovoltaic (PV) increased by 263MW. Primarily due to lower daytime temperature, caused by milder conditions in February and March, across all NEM regions.
- The impact of COVID-19 has also reduced operational demand in the NEM.

Power system events result in higher system costs.

- Historically total NEM system fees account for 1-2% of the total cost in the NEM.
- Q120 saw the fee component for the NEM increased to 8%. Retailers paid \$144M and generators paid \$166M.
- Higher fees were a result of major power system event, primarily the separation of VIC and SA. Frequency Control Ancillary Services (FCAS) costs contributed the largest quantity to these increases as system strength was required to be maintained during the separation events. FCAS contributed 74% to the system costs for the quarter

Falls in Electricity futures

Electricity futures traded on the Australian Stock Exchange (ASX), fell 11%, as the impact of COVID-19 moved through the industry.

Weather

Q120 has seen milder temperatures. Average temperatures for Q1, were greater than 1 degree below the 10-year average temperature, in every region of the NEM.

NEW Spot Prices

Average prices turned out low across the NEM, with mixed price volatility. QLD and TAS had relatively low volatility however, NSW and VIC were quite volatile. Price volatility in NSW, VIC, and SA, was a result of failures in the transmission system or reliability of generation assets. High demand played a role in very few occasions.

With the changes to the bid stack, different technologies shared the price setting duties. As the technology with the largest installed capacity, it was expected that coal generation set price, 47% of the time. Hydro set price, 28% of the time and interestingly the normally expensive gas power generation set price, 19% of the time but, at price far below historic prices.

QLD and NSW were skewed toward coal setting price more often than the other states, with VIC and SA favouring Hydro, Wind and Solar.

In Queensland gas power generation set price at \$51/MWh, significantly lower than previous years and for a large part of the time, below the prices offered by coal generation.

Electricity Demand

- Milder weather resulted in reduced cooling requirements, resulting in reduced energy consumption. Increased penetration of rooftop PV, significantly reduced the operational demand with an increase of 524MW, bringing the installed capacity of roof top PV to 3,023MW across the NEM.
- Q120, saw the minimum demand levels reach new lows, with SA and VIC not seen in recent years. QLD and NSW were not as impacted like the southern states, due to industry remaining online.

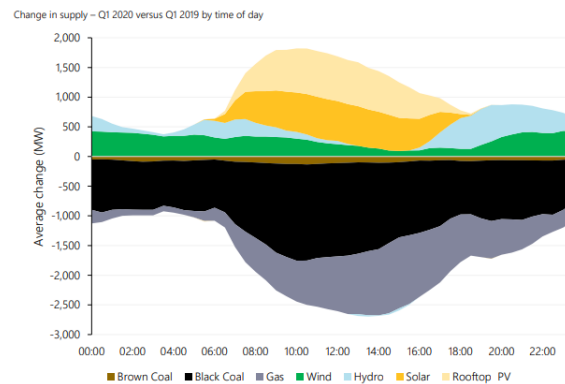


Chart above shows that coal generation and gas-powered generation, have been the biggest losers over the last 12 months. Chart above is NEM wide.

The drop in gas-powered generation is mainly resulting from SA gas generation, being offset by renewables. In QLD, the coal generation is being displaced by the gas-powered generation and solar. Hydro generation has increased due to some increase in water storage levels in TAS however, it is being utilised during the morning and evening peak, to optimise returns.

NSW coal generation dropped the most across the NEM over the last 12 months, primarily due to reliability issues at the NSW coal assets resulting in the capacity being replaced by renewables and the currently low prices gas power generation.

In QLD, gas powered generation increased with Darling Downs and Swanbank E power stations, operating at higher capacity factors and lower prices. Although

hydro generation has increased across the NEM, it dropped in QLD mainly due to the reduction from the Northern QLD Hydro assets, which fell to pre-2016 levels. This is a result of portfolio optimisation driven by diminishing dam levels.

Wind and large-scale solar generation increased in Q120. Increasing average generation by 550MW. In Q120 about 200MW of normally high prices gas power generation i.e. \$300/MWh, was offers at prices below \$70/MWh. Thermal generation volume was also bid in at lower prices. 150MW of volume was shifted from \$150/MWh to below \$60/MWh. 1000MW of hydro generation was also shifted from above \$100/MWh to below \$100/MWh.

ASX

The futures market was influenced by:

- lower spot market
- gas prices and the predicted increases in renewables
- rooftop PV
- the ongoing impact of COVID-19.

Think. Act. Save.

The world has certainly changed in the last six months. 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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