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1 August 2019

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW, 1235

Dear Mr Pierce,

Re: EPR0073 COGATI – Access Reform Directions Paper

Flow Power welcomes the opportunity to make a submission in response to the COGATI – Access Reform directions paper (**Paper**).

Flow Power is a licenced wholesale electricity retailer that works with business customers throughout the NEM. Our model aims to give customers control over their energy costs giving them access to regional reference prices (spot prices). Customers can manage exposure to price volatility through physical or financial hedges.

- A physical hedge takes the form of a demand response or onsite generation (supported by our proven systems).
- A financial hedge may include purchasing financial hedges from markets such as ASX Energy Futures or entering into a PPA with generators.

We are pleased the AEMC has considered the issues we raised in our response to the COGAT implementation – Access and Charging consultation paper dated 1 March 2019, in particular, recognising the need to assess whether the introduction of dynamic regional pricing would likely trigger change of law clauses under existing PPA and the potential magnitude of this¹. It would have been helpful though, if the Paper provided direction on how this assessment will feed into the dynamic regional pricing's implementation decision making process. We trust the draft determination will address this matter.

We strongly support the AEMC proposal that non-scheduled generation and load be settled based on spot price. Besides the potential issues, highlighted in the Paper, that are likely to eventuate if load was to face a dynamic regional price (DRP) instead of a spot price, we submit the following concerns, if load was to settle based on DRP:

1. Flow Power's energy supply agreements (ESAs) with its customers are structured so that the spot price is passed through to the customer. If load was to be settle on DRP this will require Flow Power to renegotiate all of its existing ESAs. These negotiations will take time, especially if disputes arise.

¹ Paper, section 4.8.1, last dot point, page 64

2. As noted above, some of Flow Power's customers enter into PPAs with generators to manage their risk exposure to the spot price. In instances where the load sits behind a constraint (ie load settles based on dynamic regional price) but the generation is not (ie generation settles on spot price) implications will result as the price paid by the seller will be disconnected from that paid by the buyer.
3. Flow Power's current processes and systems (including billing system) are designed based on existing market rules, that is NMIs located within a specific NEM region are settled (AEMO settlement and customer billing) based on a single price (the spot price). If load was to settle based on DRP, this will have a material implication on Flow Power's systems and processes.
4. The Paper proposes:
 - a. The settlement residue, being the difference between the amount paid by the load and that paid to generators, be distributed to generators that purchased transmission hedges; and
 - b. The proceeds from the transmission hedging products purchase be passed onto TNSP to support the planning and coordination of transmission investment.

If the load was to settle on the DRP, the settlement residue will no longer exist (or will reduce considerably), making the transmission hedging financial risk management strategy ineffective.

If on the other hand, the proceeds from the transmission hedging products purchase is distributed to generators instead of TNSP this will defeat the policy intent of making generators contributing to the cost of transmission investment.

The AEMC proposed three options for settlement residue allocation². We support option C as this will reduce generators' cost associated with the purchase of transmission hedges.

If you have any queries about this submission, please contact me on 0417 971 032 or nabil.chemali@flowpower.com.au

Yours sincerely



Nabil Chemali
Regulatory & Compliance Manager
Flow Power

² Paper, Table 4.1, page 50