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PROGRESSIVE GREEN T/AS FLOW POWER ABN 27 130 175 343

19 October 2020

Dear Ms Moraes,

Re: Transmission access reform: updated technical specifications and cost-benefit analysis

Introduction

Flow Power welcomes the opportunity to make a submission in response to the interim report on Transmission access reform with updated technical specifications and a cost-benefit analysis.

Flow Power is a licenced electricity retailer that works with business customers throughout the NEM. Flow Power an innovative retailer, focussed on providing low-cost and low-carbon retail solutions for our customers.

Our model aims to give customers control over their energy costs by helping them to respond to price signals from the wholesale market. We help our customers in managing exposure to price volatility though physical or financial hedges. For example:

- A physical hedge takes the form of a demand response or onsite generation (supported by our in-house technology).
- 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 cost.

We thank the AEMC for their extensive consultation on the proposed reforms to date. We also thank the AEMC for responding to requests to undertake an assessment of the costs and benefits of the proposed reform.

Proposed reforms

We agree that there are challenges in setting out a framework that sets out how the transmission network is planned, built and used in a manner that minimises costs imposed on customers. Significant changes to the network will be needed to facilitate and support a broad transition from thermal generation to more dispersed renewable generation. However, Flow Power remains unsupportive of the proposed reform. We support the submissions of the AEC and CEC, both of which we are a member.

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Our key concerns are:

- The introduction of a new pricing risk that was not contemplated when Flow Power entered into its 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, 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've 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 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.

We also seek clarification from the AEMC on whether FTRs can adequately hedge the basis risk between buyers and sellers in the market under the proposed access regime. If retailers are paying a volume weighted average price, this won't necessarily be the same as any of the nodal prices in the NEM. So, even if there had been FTRs procured between a generator and a load centre, there could still be a price differential the nodal price and the VWAP paid by the retailer. This would need to be borne by either the buyer or seller in a contract.

Impact of government intervention

It would be useful to understand whether the benefits of the proposed transmission access reform diminish with increased government intervention in transmission investment. Both the federal government and federal opposition have indicated willingness to underwrite some transmission infrastructure. This may lead to transmission infrastructure investments being increasingly guided by processes outside of the current transmission planning framework.

If you have any queries about this submission, please contact me at Declan.Kelly@flowpower.com.au.

Yours sincerely,

Declan Kelly

Regulatory Policy Manager

Flow Power.