Ground Floor, 109 Burwood Road,
Hawthorn, VIC 3122

Level 36 Gateway Tower, 1 Macquarie
Place Sydney, NSW 2000

PO Box 6074 Hawthorn, VIC 3122

P: 1300 08 06 08
W: flowpower.com.au
E: go@flowpower.com.au
F: 03 9277 7768

Progressive Green T/As Flow Power
ABN 27 130 175 343

8 November 2019

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

Dear Mr Pierce,

Re: EPR0073 COGATI – Access Model Discussion Paper

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

Flow Power is a licenced 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 (**RRF**). We assist our customers to manage exposure to price volatility through a variety of means, including:

- engineering services to provide demand response (**DR**) capability or onsite generation (supported by our proven systems).
- financial hedges, such as financial hedges from markets such as ASX Energy Futures or passing through rights under long-term offtake agreements we have entered into with renewable generators.

While Flow Power believes that reforms are necessary to further support transmission investment, we do not support the AEMC's proposal in its current form and certainly not on the proposed timeframe.

Flow Power strongly supports to submission made by the Clean Energy Council (with whom we are a member), and particularly wish to reiterate the following points:

- We agree with the CEC that the proposed implementation timetable presents a real risk of freezing generation investment. When these reforms are combined with the recent Retailer Reliability Obligation reforms, Wholesale Demand Response Mechanism proposal and 5-Minute Settlement, we think the level of uncertainty in the market is likely to cause investors to hold back. We also expect end consumers to revisit their energy strategies, as the level of uncertainty introduces risks in entering long-term agreements. This is particularly troubling when those long-term agreements are used to underpin investment in renewable generation and firming technologies. Further, as a relatively small organisation, the level of resourcing required to monitor and engage with these material reforms is becoming a significant cost. On that basis, we agree with the CEC's suggestion that these reforms are aligned to the timing of this reform with the Energy Security Board's post-2025 design work.

- Consistent with the CEC's position and reiterating comments provided in our submission dated 26 April 2019 in response to the COGATI – Access and Charging consultation paper of 1 March 2019, we are concerned of risks the proposed reform is likely to pose on retailers' PPA with generators exposed to local prices. That is, the transitional arrangements do not appear to contemplate the true impact that:
    - a change in the methodology for determining the RRP; and
    - removing MLFs as we currently know them,

  would have on the current market. 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. We think such adverse results could be overcome if the AEMC proposal:
    - sets transitional timelines that give the market time to respond and adapt in advance, such as the 5-Minute Settlement changes have done; and
    - incorporates transitional or grandfathering arrangements which align with investment timelines, as suggested by the CEC.

- The Paper proposes a very significant and complex market reform. While we acknowledge transmission investment and access reform is a major issue for the market, we do not believe sufficient evidence has been produced to justify such a material change to the regulatory framework. With respect to the AEMC's proposed approach to quantitative modelling, we strongly urge that this work is completed thoroughly and over a sufficient period so as to ensure that the proposed market reform would solve the issues which the COGATI reforms were originally intended to address. As we commented in our response to the Consultation Paper in March, we think it is critical to collect enough data and in-depth assessment of the potential financial impacts of the change is made before deciding on whether to proceed with implementing Locational marginal pricing (LMP). We are concerned that timeline proposed does not provide for adequately detailed analysis, presenting a very material risk of unintended consequences arising from implementation of the reforms

In addition to the concerns raised by the CEC and reiterated above, we would also like to flag the following additional issues:

1. We would like to understand what implications the proposed model will have on the Wholesale Demand Response Mechanism (WDRM) and the Retailer Reliability Obligation (**RRO**)?

   (a) Under the WDRM Draft Determination, the amount AEMO collects from retailers for the value of wholesale DR provided[1] will be passed to the Demand Response Service Provider (**DRSP**). However, under the COGATI reform, DRSPs will receive the LMP not RRP. The Paper has not addressed how the proposed COGATI model will work with the WDRM and the implication on retailers, especially in the event the LMP is higher than the RRP.

[1] (baseline volume – actual volume) x RRP

(b) The WDRM is designed to allow DRSPs to offer DR products to support the RRO. However, the RRO requires the retailer to enter into contracts to manage their exposure to the volatility of RRP not LMP. The COGATI proposed model is likely to undermine the RRO's objective of increasing voluntary DR.

The DRSP's exposure to LMP is likely to discourage them from offering products supporting the RRO.

Similarly, retailers may not see value in purchasing DR products from DRSPs that settle based on LMP as these may reduce the firmness factor.

2. We have already raised concerns about the impact these reforms could have on decisions to invest over the next couple of years. A more nuanced view of this issue is that the cooling effect may not apply to those market players who are best placed to manage the associated risks, being established, vertically integrated retailers. Therefore, we think that the impact of these reforms could be to reduce competition in the market, by introducing risks which only entrenched participants are able to manage

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