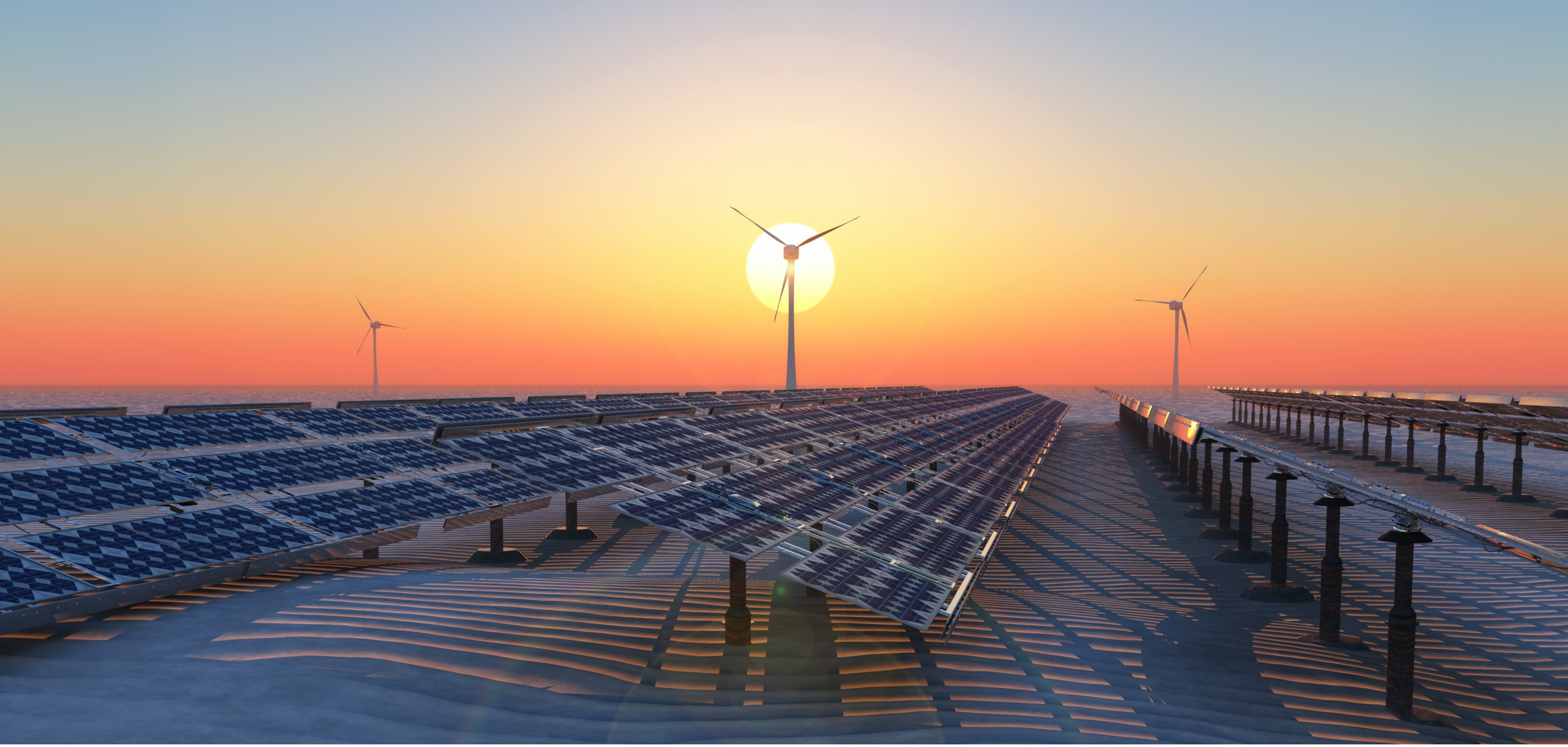

Hustle Limited

Spot Price Retail Contracts — How to manage your energy costs?

November 2018

Welcome to Hustle

Independent Consultancy Services

Tackling challenging problems in complex markets

Hustle is an independent consultancy with over 8 years of experience working in complex and regulated infrastructure markets across the Asia-Pacific region. We've worked in both developing and developed countries such as the Philippines, Singapore, China, Hong Kong, South Korea, Malaysia, New Zealand and Australia.

- Project Management,
- Due Diligence,
- Transaction Advisory,
- Market Design,
- Competition & Regulatory Economics,
- Strategy & Market Analysis.

We have hands-on experience with hedging, risk management, and derivatives trading in the energy markets, and have practical experience in both the physical and financial markets.

Some of the industry sectors which we've been most active in includes Telecommunications, Energy, Dairy and Agriculture. We've worked on projects dealing with sustainability, carbon trading, the environment, and the management and allocation of our natural resources (water, geothermal, oil, gas).

Market Overview

Where is the industry going?

Industry Trends: Spot Price Retail Contracts

In recent years, new entrant retailers have steered us into a new and innovative directions, offering new business models for the benefit of end-consumers.

One of the new retail products in the market that has generated a lot of interest recently are spot price retail contracts. By moving away from traditional fixed-price variable volume tariffs, these retail arrangements allow consumers to save on energy costs by being exposed directly to wholesale market prices.

Such types of retail contracts have already helped reduce overall energy costs for larger-scale consumers who have sufficient hedging capabilities and the infrastructure necessary to manage spot price exposure. For smaller participants however, risk management is relatively more difficult with only limited hedging capabilities and prudential security available to curtail costs when spot prices remain high (i.e., during a dry year).

A more novel approach is therefore required for smaller consumers who decide there are sufficient benefits in remaining on spot price contracts. When spot prices are high for extended periods, it is important for consumers to be smart about their energy use and have a good understanding of the options available to them to help mitigate their energy costs.

Where is the industry going?

How to reduce energy costs when spot prices are high?

Some options available to consumers to hedge and reduce energy costs when faced with prolonged periods of high spot prices are:

- Hedging their exposure to high spot prices by entering into financial contracts (e.g., CfDs, ASX futures contracts, etc.),
- Switching to alternative sources of generation (e.g., solar),
- Taking advantage of battery storage technology,
- Negotiating a fixed-price contract to mitigate part, or all of their spot price risk,
- Reducing load and consumption levels on a timely basis (i.e., demand response).

Before considering any investment in any of the mechanisms above, it is important for consumers to first have a good understanding of their load profiles, expected consumption patterns and behaviour, and the corresponding impacts that this on their operating budget and costs.

More accurate information about their own operations and energy use, and a deeper understanding of energy market dynamics enables consumers to make better business decisions that can materially impact their bottom line and profit margins.

Contact us below if you'd like us to review your facility's energy portfolio.

Email us at info@hustleconsulting.co.nz

Call us on +64 22 081 9642

Follow us on social media:

/HustleLimited