



Level 1, 24-30 Camberwell Road,  
Hawthorn East, Victoria 3123

P. 1300 08 06 08  
F. 03 9277 7768

PO Box 3100 Auburn 3123

go@flowpower.com.au

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

flowpower.com.au

22 December 2017

Prudential Manager

Australian Energy Market Operator

Level 22, 530 Collins Street

Melbourne, VIC, 3000

Submitted via email: prudentials@aemo.com.au

Dear Manager

### **Re: Credit Limit Procedures – Modelling Parameter and MNSP Prudential Requirement Changes**

While Flow Power supports the arguments put forth in the submissions made in the first stage of consultation, we suggest that any changes to the Credit Limit Procedures should take into account the rise and importance of demand response in the NEM. Flow Power is a small but rapidly growing innovative electricity retailer that connects businesses to the signals of the electricity market, educating customers to use demand response as a practical measure to reduce energy costs for customers. Since receiving our electricity retailing licence in 2009, this has been an essential component of our business model connecting customers to market pricing signals and thus driving energy cost reductions for them.

Our experience demonstrates that connecting customers to market price signals, will make them respond, modify operational behaviour and drive effective management of peak demand.

Flow Power is a participant in ARENA's Demand Response Program in NSW, AEMO's RERT Panel in Vic and SA and Ausnet's Critical Peak Program in Vic.

#### **What does this mean for Prudentials**

At present, the MCL calculator used by AEMO does not recognize the impact of demand response on energy requirements. In the MCL calculation, the "Average Daily Load" is considered as an input. However, it is not sufficient enough to recognize the impact of demand response during peak or critical times.

For example, the table below summarises our load reduction during a series of market events where Flow Power notified their customers of a high price event. It shows that during 2016 in Victoria our load is reduced by ~40% in some high price events. It is precisely this impact that is difficult to recognise from the index "average daily load". Connecting customers to the signals and needs of the market not only manages peak demand in a cost-effective way, prevents any failure or blackout, but also helps keep costs down for power users across the NEM (and our customers).

At Flow Power we strongly feel that, retailers who initiate demand response must also be encouraged by the appropriate application of Prudential process and MCL.

EVENT DATE AND TIME-	BEFORE EVENT		AFTER EVENT		LOAD REDUCTION
	Time	Load (WATTS)	Time	Load (WATTS)	
08-03-2016 16:00	08-03-2016 15:15	40703678	08-03-2016 16:15	21813594	46%
23-02-2016 15:00	23-02-2016 14:45	48003861	23-02-2016 15:45	26267461	45%
13-01-2016 16:15	13-01-2016 15:30	55522693	13-01-2016 17:00	15700849	72%

Additionally, customers can also buy energy from Flow Power, at fixed rates over long-term periods (ten years), procuring energy directly from a designated renewable power plant, through a Virtual Generation Agreement, as an alternative source of energy, at a much lower cost than the ruling market prices.

Flow Power being a wholesale power company, specialises in, and only serves commercial and industrial customers. As such, any increase in bank guarantee fees and interest costs to meet higher prudential obligations, is ultimately passed on to business customers, which in turn has a chain reaction causing widespread price increases to business and the economy generally.

### In summary

Another participant has responded as follows:

“AEMO could apply the Prudential Margin over any additional credit support that may be provided to meet the market exposures” and “this will allow participants to manage any excess exposure proactively, without increasing the minimum credit support required for the entire period”.

Flow Power strongly supports the above statement.

At Flow Power, we also feel strongly that the regulatory system does not taken note of the innovative efforts that have been applied through business models such as ours, to grow demand response. Through constant Research and Development, Flow Power continuously work on empowering business users to respond to market signals using technology, connectivity and communications.

AEMO does not recognize and has not factored those elements into the Prudential model.

In addition to that, if AEMO proposes further changes to increase Prudential Requirements and the MCL, that will only penalise and discourage smaller innovative Retailers to continue making a significant and positive contribution to increasing competition in the power industry.

We are committed to participating in this consultation as we see it, an essential way to keep costs down for our customers and the economy more generally.

If you have further questions please contact Liz Fletcher on 0417 080 535 or email [liz.fletcher@flowpower.com.au](mailto:liz.fletcher@flowpower.com.au)

Kind regards



Matthew van der Linden

**Managing Director**

**Flow Power**