



LO3 Energy
573 Sackett,
Brooklyn, NY 11217

21/12/18

Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney, NSW 2000

By email:

RE: Wholesale Demand Response Mechanism

Dear Victoria,

LO3 Energy welcomes the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC's) consultation paper, "Wholesale Demand Response Mechanisms."

We are a fast-growing company, headquartered in New York, with deep roots in energy, finance and technology. We are building a blockchain based platform to enable decentralised markets and innovative business models to support new energy products and services.

LO3 Energy supports the proposed rule change submitted for consultation by the consortium comprising the Public Interest Advocacy Centre (PIC), Total Environment Centre (TEC) and the Australia Institute (AI). We agree with the views expressed in their proposal, and by the AEMC in its consultation paper, that a well-designed Wholesale Demand Response (WDR) mechanism is likely to promote the National Electricity Objective by creating a more competitive wholesale market and a more reliable power system. In particular, the consortium's proposal would establish a clear compensation mechanism for wholesale demand response services, which should encourage greater competition in the provision of such services.

In our view, the other demand response proposals are less preferable. The Australian Energy Council (AEC) rule change proposal would appear to add little over the existing framework, as the Demand Response Service Provider (DRSP) would still be in the same position of having to negotiate with a retailer in order to provide its service to consumers. It does not therefore address the key existing barriers to demand response as set out by the AEMC in its consultation paper. On the other hand, the rule proposal for a new separate demand response market put forward by the South Australian Government, while having its merits, would appear to introduce unnecessary complexity into the National Electricity Market (NEM).



LO3 ENERGY

The consortium's WDR proposal, while the preferred option, will nonetheless be challenging to implement, requiring the development of an appropriate baseline methodology and likely substantive changes to retail operating and billing systems. California, where a WDR mechanism has been in place for several years, provides an important source of ongoing learnings in this respect and we urge the AEMC to interrogate their arrangements thoroughly.

The consortium's WDR proposal presents a novel framework for allowing a DRSP to participate in the wholesale market without the apparent need for them to become a Financially Responsible Market Participant (FRMP)¹. As a consequence, the DRSP can enter into commercial arrangements with consumers directly without breaching 3.15.3 of the NER (which allows for only one FRMP per connection point).

We note however that this approach will not work for other innovative energy services that could be of value to consumers, such electric vehicle charging, peer to peer trading or virtual power plants. These services will still need to be provided under the umbrella of a retailer. This is because these services will have settlement implications in the wholesale market and only the FRMP at each connection point can be settled in the wholesale market.

For this reason, we consider that the AEMC's proposal, as described in its Reliability Frameworks Review Final Report 2018, for a new regulatory framework that establishes new categories of FRMP and allows for multiple trading relationships at each connection point, is in our view an important next step in design of future energy market arrangements. Such a framework will open up retail markets to greater competition and innovative business models that will create more choice and new sources of value for consumers. We look forward to working with the AEMC to establish such a framework in the near future.

If you have any questions please do not hesitate to give me a call on +61 439399943

Thank You,

Con Van Kemenade

Con Van Kemenade
Director Public Policy
LO3 Energy

¹ It is not entirely clear to us however whether a customer that accepts some form of wholesale market payments can avoid being deemed financially responsible for those payments according to the strict drafting of the rules.