



24 July 2019

Mr John Pierce AO  
Chairman  
AEMC  
Lvl 6/201 Elizabeth Street  
Sydney NSW 2000

Sent via email: [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

Dear Mr Pierce,

**Re: Draft rule determination, Wholesale demand response mechanism**

I am writing to you in relation to the Australian Energy Market Commission (AEMC), Wholesale demand response mechanism, Draft rule determination, released on 18 July 2019 (the Draft Determination).

SIMEC Energy Australia (SEA), is a relatively new National Electricity Market (NEM) participant delivering firm renewable energy solutions to our customers at globally competitive prices. SEA is progressing well against this objective and we are approaching the final stages of taking the 280MW Cultana Solar Farm, located in South Australia (SA), to financial close. Additionally, we are pursuing delivery of the 100MW Playford Utility Scale Battery and the 220MW Middleback Ranges Pumped Hydro Storage asset – both located in SA.

An integral part of our NEM strategy is to actively engage with our customers to deliver ‘win-win’ solutions, including through exploring demand response (DR) opportunities, with the aim of reducing the cost of energy supplied as well as to assist SEA’s management of its wholesale market exposure. I note that SEA has had some success in pursuit of this objective, having secured customers keen to participate in our DR programme.

It is against SEA’s operational strategy, to deliver energy at globally competitive prices and ‘win-win’ outcomes for our customers, that I wish to provide the following comments on the AEMC’s Draft Determination and request that the AEMC hold a hearing on the Draft Determination.

Of significant concern to SEA, is that the proposal, as currently framed, will:

- Substantially diminish the efficient operation of the NEM through the creation of an ongoing economic burden – or levy – on all host retailers (whose customers choose to participate in the mechanism via a third party);
- Create perverse incentives – which can lead to additional regulatory costs – arising from the creation of consumption baselines;
- Increase market administrative and transaction costs for host retailers, the Australian Energy Market Operator and the Australian Energy Regulator – due to the additional steps required in the settlement process;

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- Host retailers will continue to face the costs of hedging the participating customer at the baseline level of consumption (and also incur the cost of paying for their customers DR response) but they cannot mitigate the first cost (baseline hedging) as they have no control over when (or if) the Demand Response Service Provider (DRSP) will call the load;
- Places significant responsibility on a new market participant, the DRSP, to bid demand curtailment into the market – a responsibility that may be ill-placed; and
- A competitive demand response market (an efficient ‘two-sided’ market) is not created by this approach – as the DRSPs revenue is not actually sourced from the market but from the host retailer paying the ‘bill for [the] difference between the baseline and actual consumption at spot price’. Further, and aside from the significant economic burden that would be placed on host retailers, this mechanism (as noted by the AEC in the Draft Determination) is unable to be expanded to residential customers because of consumer protection provisions.

I also note that the market is in the process of transitioning to 5-minute settlement (starting in 2021). Part of the AEMC’s justification for pursuing this market change was that it provides a better price signal for investment in fast response technologies and, importantly, demand response. Aside from my concerns raised above, I suggest that it is premature to implement a further market change when 5-minute settlement has not yet commenced and would only be operational for a very short period ahead of the implementation of a further market change – the implementation date of the DR mechanism is 1 July 2022.

Finally, I note that the COAG Energy Council has tasked the Energy Security Board (ESB) with developing advice on a post 2025 market design – which opens the real possibility of additional market changes eventuating from this work. Accordingly, it is of concern for market participants such as ourselves (participants who are seeking to efficiently manage business costs to deliver globally competitive prices for our customers), that we could potentially face a series of additional business costs in response to the implementation of 5-minute settlement, the Wholesale Demand Response Mechanism and the Co-Optimisation of Generation and Transmission Investment – only for these changes to be subsequently washed away by the adoption of recommendations made by the ESB.

Considering the issues raised above, I suggest that there is a strong case for the AEMC to revisit its decision implementing this rule change in its current form. Specifically, I consider that, given the negative impacts that such a measure would have on the market, it would be appropriate for the AEMC to consider any – and all – alternative options including, not implementing the change.

In closing, I trust that the above reflections are of value in your consideration of the efficiency and effectiveness of the proposed rule change and look forward to the AEMC hold a hearing in relation to the draft rule determination.

Yours Sincerely



**MARC BARRINGTON**  
CEO

CC: Mr Rod Sims, Chair, ACCC