

16 September 2019

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

WHOLESALE DEMAND RESPONSE MECHANISM – DRAFT DETERMINATION

Dear Mr Pierce,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Market Commission's (AEMC) Wholesale Demand Response Mechanism Draft Determination. This submission builds on our evidence to the public hearing held on the matter on 6 August 2019.

Energy Consumers Australia supports the AEMC's draft determination to introduce a wholesale demand response mechanism for large energy consumers.

The draft decision to introduce a wholesale demand response mechanism for large customers can help deliver Energy Consumers Australia's vision for the market:

- *Affordable* – enabling individual consumers to be paid to reduce their demand means they can directly reduce their bills, but it also reduces costs for all customers through increased competitive pressure in the wholesale market and reduced system costs;
- *Individualised* – providing opportunities for consumers to partner with demand response service providers in a manner that suits their needs; and
- *Optimised* – providing incentives for consumers to reduce their demand at peak times is likely to be faster and cheaper than building new generation, or new networks. A wholesale demand response mechanism would help to ensure better utilisation of existing capacity.

We also call on the AEMC to accelerate the process for opening-up opportunities for small consumers to participate in the new arrangements.

What consumers are telling us

Consumers are telling us that energy services are not affordable, do not represent value for money and they do not have confidence that the sector is working in their long-term interests.¹ The price of energy has nearly doubled for many households and small businesses in the past 10-15 years and is a root cause of this dissatisfaction. Consumers are also telling us that they lack control over their energy use, only having a binary choice (On/Off) when it comes to maintaining comfortable homes and competitive businesses at a price they can afford.

¹ <https://energyconsumersaustralia.com.au/publication/energy-consumer-sentiment-survey-findings-june-2019>



Our research shows that the desire to manage energy use and get control over bills is the main reason why so many Australians are investing in rooftop solar and (increasingly) battery storage systems. More and more Australians are also purchasing smart appliances that are capable of ‘talking to the grid’ and adjusting to take advantage of changing energy prices in real time. This is an unstoppable trend in our view which is changing the energy system – moving it from one comprised of *a small number of large things to a large number of small things*.

Updating the design of the energy market to reflect this profound change in the nature of the system must be one of our highest priorities for reform. Ensuring all participants can compete on a level playing field is a basic requirement for any well-functioning market.

Implementing a demand response mechanism was a key recommendation of both the Australian Competition and Consumer Commission (ACCC) Retail Electricity Pricing Inquiry and the Independent Review into the Future Security of the National Electricity Market (the Finkel Review). Both reviews considered that rewarding consumers for reducing demand would reduce wholesale prices, reduce the need for new generation and lower prices for all consumers. The ACCC’s recommendation was part of the suite of recommendations that, if implemented, would deliver price reductions of around 20-25% for consumers. In addition to the price benefits, a wholesale demand response mechanism would contribute to an efficient (optimised) response to maintaining reliability and security of supply.

Beyond this though, many consumers are telling us they want to share energy with people in their community who might be struggling with affordability, while others are willing to reduce their energy use during heatwaves to reduce the pressure on the grid. According to the Energy Consumer Sentiment Survey, around 45% of residential consumers are prepared to reduce their energy use during periods of high demand. An additional 25% of respondents indicated they would reduce their demand if there was an incentive to do so. Around 60% of small business consumers think consumers should be rewarded for reducing energy use during peak period.² This represents an incredible opportunity for the sector to partner with consumers to create value for them and the community.

Ensuring appropriate consumer protections

We note the AEMC’s position that the new class of market participant is not a retailer and therefore the existing consumer protection responsibilities will not apply. We agree that it is important to ensure appropriate consumer protections are in place, but we request that the AEMC consider how to bring forward the extension of the mechanism to small consumers, to avoid delaying the consumer benefits any longer than necessary.

If additional or amended consumer protections are contemplated, we would encourage the AEMC to consider faster, more flexible approaches that put the onus on the sector to deliver positive outcomes for consumers. The New Energy Tech Consumer Code, which is currently being considered for authorisation by the ACCC, is demonstrating the potential of industry-led approaches at a time when technology and service models are changing.³ The proposed Consumer Code will set minimum standards of good practice and consumer protection that will be provided by signatories covering all aspects of the customer experience, including those ranging from initial marketing and promotion through to, as appropriate, the offering, quoting, contracts, finance and payments, installation, operation, customer service, warranties and complaints handling processes. The ACCC recently indicated support for this new approach in its Draft Decision.

² <https://energyconsumersaustralia.com.au/publication/energy-consumer-sentiment-survey-findings-june-2019>

³ See <https://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisations-register/new-energy-tech-consumer-code>



We also request the Commission consider ways to create early opportunities for smaller energy consumers to benefit from the flexibility associated with low risk loads like hot water services and pool pumps.

If you have any questions about our comments in this submission, or require further detail, please contact Jacqueline Crawshaw, Associate Director, by phone on 02 9220 5520 or by email at jacqueline.crawshaw@energyconsumersaustralia.com.au.

Yours sincerely,

Rosemary Sinclair AM
Chief Executive Officer