



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
By email: aemc@aemc.gov.au

Dear Mr Pierce

Power of Choice Directions Paper

Loy Yang Marketing Management Company Pty.Ltd. (LYMMCo) welcomes the opportunity to provide this submission to the Australian Energy Market Commission (AEMC) on the *Power of choice - giving consumers options in the way they use electricity* Directions Paper (the Paper).

LYMMCo positively recognises the level of effort the AEMC has expended in preparing the Paper. It is our hope that at the conclusion of this review the issue of demand side management – and how to achieve its effective engagement/participation – is resolved.

By way of background, LYMMCo trades the largest privately-owned generator in the National Electricity Market (NEM). In total, LYMMCo trades in excess of 2,200MW which is approximately one third of Victoria's electricity needs and more than 8% of the total generation for the south-east of Australia.

Demand side participation

From our perspective a well functioning and efficient market requires effective, and appropriate, demand side and supply side responses. Without effective demand and supply side engagement, market outcomes may be detrimentally affected through, for example, higher than necessary network infrastructure costs (where a demand side response may have negated the need for such expenditure) and higher electricity prices (as a result of demand being unresponsive to price signals requiring the dispatch of higher cost generation capacity).

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Eliciting a demand side response has been an issue of concern in the National Electricity Market (NEM) for some time. For example, in 2002 the Australian Governments' Independent Review of Energy Market Directions (the Parer Review) found that:

“there is a relatively low demand side involvement in the NEM because:

- the NEM systems are supply side focussed
- the demand side cannot gain the full value of what it brings to the market
- residential consumers do not face price signals.”¹

A decade later these issues remain, for the most part, unresolved and with largely disparate load sources, government retail price setting and historically inelastic demand it is inevitable that this issue will remain ‘live’ for some time.

We consider that retail customer exposure to efficient prices (prices that reflect the total cost of electricity supply) is key to improving the demand side response. As ultimately, end users' exposure to the actual costs of their consumption will influence their decision making – providing a clear signal for an effective demand side response.

To achieve this outcome it is necessary that retail price regulation is removed. The importance of which has been recognised for some time by governments nationally. For example, in 2006 Federal, State and Territory government's committed to full retail price contestability through the *Australian Energy Market Agreement* and the Commonwealth Government's Draft Energy White Paper – *Strengthening the Foundation for Australia's Energy Future* recommends that retail price deregulation in Australia should be completed. However, we recognise that there are political barriers to achieving this outcome in the short term – in order to mitigate the impacts of rising electricity prices.

Furthermore, we consider that any policy or measure introduced to further facilitate a demand side response should be technologically neutral and minimise negative distortions on NEM outcomes. Additionally, a demand side response should not receive additional payments above and beyond that which is reflective of the value of the service provided.

Recommendation

We consider that a firm commitment to a timetable for the completion of retail price deregulation in Australia is necessary in order to expose end use customers to efficient prices and, in turn, eliciting a demand side response.

Any additional measures to further facilitate demand side participation should be technologically neutral and minimise NEM market distortions

Energy efficiency

Arguably the energy efficiency measures currently in place nationally have had an impact on electricity demand as customers have become aware of the costs associated with their consumption of electricity. Specifically, electricity consumers are increasingly

¹ *Towards a truly national and efficient energy market* Council of Australian Governments' Independent Review of Energy Market Directions 2002 pg.174. Available at: http://www.ret.gov.au/Documents/mce/_documents/FinalReport20December200220050602124631.pdf

recognising that energy efficiency can provide substantial benefits in terms of cost savings in the face of higher network charges.

However, their extent (there are some 300 energy efficiency measures nationally) and their costs (i.e. administrative and other transaction costs) go largely unrecorded. Many of these measures were introduced in the absence of a carbon price and/or with no medium term expectation of a carbon price being introduced.

We consider that, ultimately, the introduction of a carbon price – and the exposure of customers to this price – will be a key driver to improve end use efficiency. As this occurs, we consider that the need for such measures will substantially diminish and should ultimately be rolled back.

Recommendation

Once the carbon price has commenced, energy efficiency measures should be rolled back in order to minimise policy duplication (to the extent that both measures are aimed at reducing greenhouse gas emissions) and in order to reduce administrative and transaction costs.

Review overlap

We also wish to raise the fact that this review is occurring at a time when a number of other reviews, which also raise similar issues, are underway. For example, the Department of Climate Change and Energy Efficiency is currently investigating a national energy savings initiative, additionally the Productivity Commission also addresses demand side participation in its network benchmarking review.

We consider that is a clear example of the lack of coordination that exists amongst the various entities that have an interest in the NEM. This can only ultimately lead to an increase in regulation and the adoption of a multitude of uncoordinated and potentially expensive policies and measures that do not deliver as intended.

Recommendation

The AEMC should actively consider the outcomes of work currently being conducted in this space in order to ensure that all relevant issues are considered and to minimise any regulatory overlap.

If you have any queries in relation to this submission please do not hesitate to contact me on (03) 9612 2236.

Yours sincerely



Simon Camroux
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