Strategic Priority 2:

Capturing the value of flexible demand

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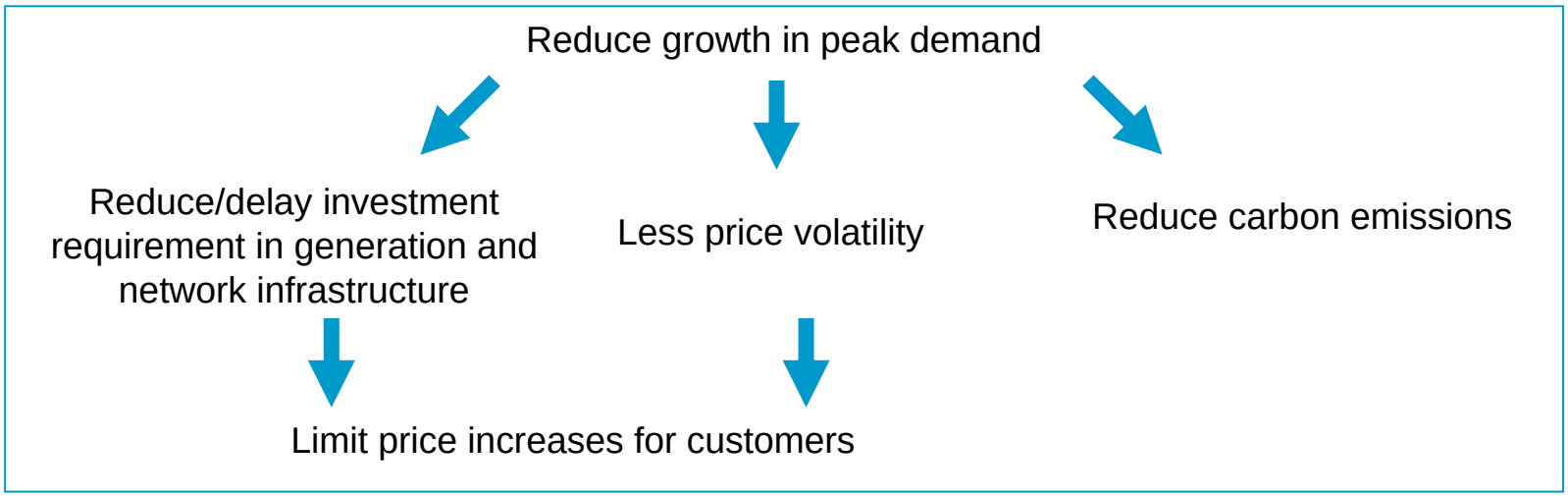
OVERVIEW

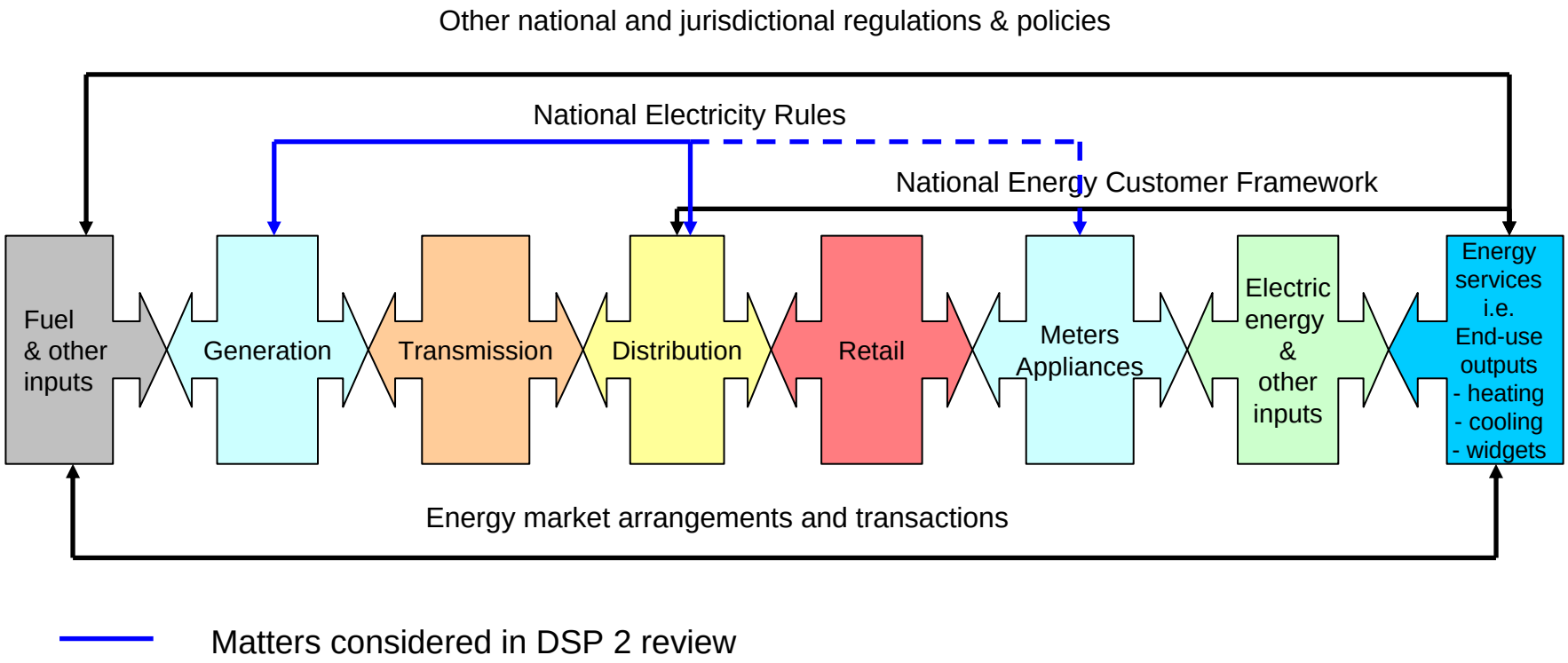
- System designed to meet peak demand - significant capacity is under-utilised at off-peak times
- Annual peak demand growth in the NEM is at 3.5% since 2005, compared to growth in total energy demand of 1.2%
- Demand shifts/reduction can be an alternative to additional network infrastructure development and peaking generation



What incentives and information will create **cost effective** demand side response?

THE ELECTRICITY MARKET SUPPLY CHAIN

- Potential for whole supply chain, not just retailers and customers



CHALLENGES

- Consumer protection issues
  - Some customers may have difficulty shifting consumption outside of peak times
  - Potential for significantly higher bills
- Customers' willingness to participate influenced by their level of confidence in retail operations generally – eg, billing accuracy, transfer processes etc
- Privacy of personal consumption data
- What are the right incentives for investing in smart grid technologies?
  - Removing barriers, ensuring that technologies with the greatest value develop
  - Ensuring **cost effective** investment
  - AEMC is reviewing barriers and incentives for DSP opportunities

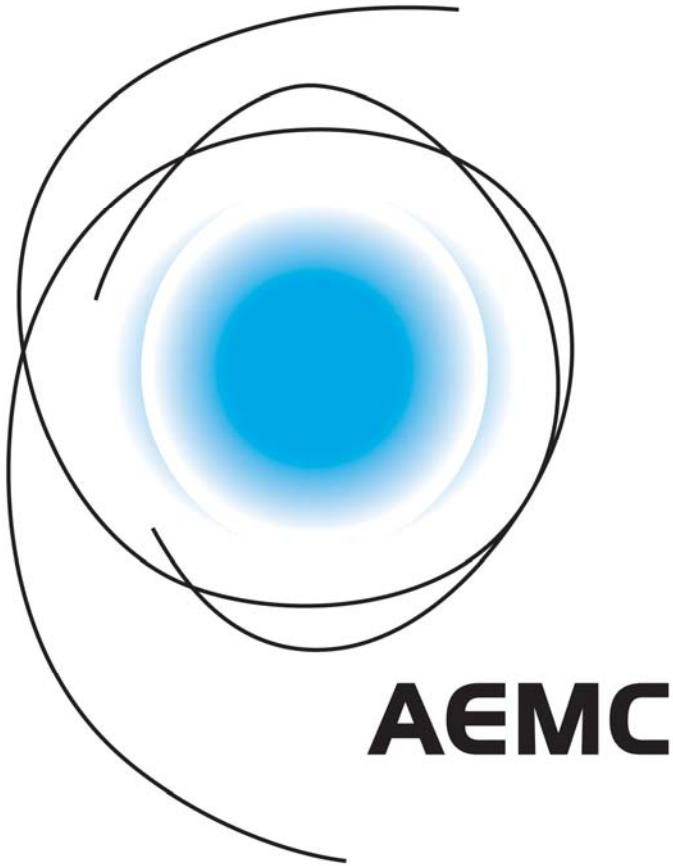
OTHER OPPORTUNITIES

- Retailers may be able to buy demand response as an alternative to peaking generation
- Potential for more sophisticated tariffs that reflect the value that different customers place on using electricity during peak times
- Potential to control demand remotely in real time
  - System operator can use demand response to maintain system balance
- Improved network planning due to better load data

NEXT STEPS

- DSP3 Review – incentives and barriers for demand side participation across the whole supply chain
  - Market frameworks to maximise value to consumers from services enabled by new technologies (i.e. smart grids)
  - Effectiveness of regulatory arrangements for energy efficiency
  - Efficient operation of price signals

- Energy efficiency – what are the opportunities?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