



11 October 2016

Veronika Nemes
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Nemes,

RE: Draft Determination – Demand Response Mechanism and Ancillary Services Unbundling (ERC 0186)

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) Draft Rule Determination on Demand Response Mechanism and Ancillary Services unbundling (ERC 0186).

About ERM Power Limited

ERM Power is an Australian energy company that operates electricity generation and electricity sales businesses. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in Australia, with operations in every state and the Australian Capital Territory. We are also licensed to sell electricity in several markets in the United States. We have equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which we operate.

ERM Power's retail business (ERM Business Energy) is currently the fourth largest retailer in Australia, and retails only to business customers. We have what is arguably the largest and most successful demand response program in the NEM, spread across all interconnected states and territories.

ERM Power supports the Commission's decisions

ERM Power welcomes the Commission's decision not to make a rule to implement a demand response mechanism (DRM). We note the Commission has found that implementing the DRM would not be in the long-term interests of customers as the costs would outweigh the benefits. We agree with the Commission's analysis that a DRM is costly and unnecessary due to the following reasons:

- demand response is already occurring in the NEM through many retailers and a variety of products and services;
- the potential to create distortions in the spot market and other markets;
- the risk of gaming in the setting of baselines; and,
- the costs of implementing the mechanism.

Implementing the proposed DRM as per the rule change request would have added complexity, risk and cost inefficiencies that ultimately would have been borne by customers.

In addition, the decision to allow for ancillary services unbundling may benefit the market through a slight reduction in the cost of frequency control ancillary services (FCAS) contingency raise services. In our submission to the Commission's consultation paper we argued that any new FCAS service provider should need to fully comply with the Market Ancillary Services Specification including all current technical requirements. ERM Power welcomes the Commission's draft decision requiring demand response aggregators participating in ancillary services markets to meet AEMO's Market Ancillary Services Specification (MASS). Further to this, we believe that the MASS should remain technology neutral to ensure that all technologies providing FCAS can compete on an even basis.

Final comments

ERM Power agrees that the demand response market will continue to function and expand without the need for a DRM. There is already a well-functioning and active demand response market in operation in the NEM with a variety of products and services on offer from multiple retailers.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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