



Australian Energy Markets Commission

National Electricity Amendment (Demand Response
Mechanism and Ancillary Services Unbundling) Rule
2016

CONSULTATION PAPER

Submission by

The Major Energy Users Inc

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**The content and conclusions reached in this submission are entirely the
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1. Introduction

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the issues raised in the AEMC consultation paper addressing the proposed rule change from the CoAG Energy Council (CEC) to enable end users a better ability to provide demand side responses into the electricity market. The MEU notes that the CEC proposal has arisen from the AEMC report Power of Choice which proposed methods to increase consumer involvement in the electricity market.

The MEU points out that there are similarities between the response it makes to this rule change proposal and the response it provided to the rule change proposal recently initiated by Snowy Hydro. Specifically, the MEU notes that end users only interface with the electricity market because they must, not because they are wedded to being actively involved. The difference between the two rule changes is that the Snowy proposal seeks to make it more difficult for end users to interface with the electricity market and this CEC proposal seeks to pull down the barriers.

However, the MEU considers the response to the Snowy proposal provides useful information to the AEMC as it assesses this CEC rule change proposal and suggests that the AEMC review includes the earlier MEU response as part of its response to this CEC rule change proposal.

1.1 About the MEU

The Major Energy Users Inc (MEU) represents the interests of large energy consumers operating in the NEM and in other jurisdictions. The MEU comprises some 30 major energy using companies in NSW, Victoria, SA, WA, NT, Tasmania and Queensland. MEU member companies – from the steel, cement, paper and pulp, automobile, tourism, mining and the mining explosives industries – are major manufacturers in the NEM and in other jurisdictions, are significant employers of labour and contractors, and are located in many regional centres, including Gladstone, Newcastle, Port Kembla, Albury, Western Port, Mount Gambier, Port Pirie, Kwinana and Darwin.

Analysis of the energy usage by the members of MEU shows that in aggregate they consume a significant proportion of the gas used domestically and electricity generated in Australia. As such, they are highly dependent on the competition that applies to the provision of gas and electricity, the retail functions needed to enable the competition to apply and to the transport networks to deliver efficiently the energy so essential to their operations.

Many of the members, being regionally based, are heavily dependent on local suppliers of hardware and services, and have an obligation to represent the

views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those of smaller power and gas using facilities, and even at the residences used by their workforces that live in the regions.

The companies represented by the MEU (and their suppliers) have identified that they have an interest in the **cost** of the energy as well as the associated network services as this comprises a large cost element in their electricity and gas bills.

A failure in the supply of electricity or gas effectively causes every business affected to cease production, and MEU members' experiences are no different. Thus the **reliable supply** of electricity and gas is an essential element of each member's business operations.

With the introduction of highly sensitive equipment required to maintain operations at the highest level of productivity, the **quality** of energy supplies has become increasingly important with the focus on the performance of the energy transmission and distribution networks, because the transport systems control the quality of electricity and gas delivered. Variation of electricity voltage (especially voltage sags, momentary interruptions, and transients) and gas pressure, by even small amounts, now has the ability to shut down critical elements of many production processes. Thus member companies have become increasingly more dependent on the quality of electricity and gas services supplied.

Each of the businesses represented by MEU has invested considerable capital in establishing their operations and in order that they can recover the capital costs invested, long-term **sustainability** of energy supplies is required. If sustainable supplies of energy are not available into the future, these investments will have little value.

Accordingly, MEU members are keen to address the issues that impact on the **cost, reliability, quality** and the long term **sustainability** of their gas and electricity supplies.

The members of MEU have identified that in addition to the need for strong competition in the competitive parts of the energy supply chains, energy transport plays a pivotal role in the energy markets. This role encompasses the ability of consumers to identify the optimum location for their investment in their facilities, and provides the facility for generators and gas producers to also locate where they can provide the lowest cost for energy supplies. Equally, consumers recognise that the cost of providing the transport systems are not an insignificant element of the total cost of delivered energy, and due consideration must be given to ensure there is a balance between the competing elements of price versus reliability, quality and long term security;

The MEU recognises there is tension between the four elements of cost, reliability, quality and long term security and therefore makes its comments in this submission in full knowledge of the need for managing this tension.

1.2 The difference between load and supply

The MEU is concerned that there appears to be a belief that the electricity market almost operates in isolation of other markets. The MEU observes that in constraining end user involvement as the rules current do and by the addition of the Snowy proposal, there is a view that the electricity market could and should be made more efficient, even if this results in detriments to other markets, especially those where electricity end users operate.

It needs to be noted that while generators are in the business of selling electricity, for end users, buying electricity is only a part of their operations. Whilst the electricity market is core business to generators, it is not the core focus of end users who operate in other markets as well. To force consumers to conform their operations to the electricity market is not in their long term interests.

In contrast to generators and retailers, electricity users are not totally focused on the electricity market - they see electricity supply only as one of many inputs to their operations and to force these end users to increase their attention to electricity markets will result a reduction in their attention to other, just as important, inputs they need to address to remain competitive in their own markets. The implication of the DRM (and the recent Snowy) proposals is that end users should be an active part of the electricity market. Whilst in theory, such a view is legitimate, in practice an end user does not want to change its load due to inputs from the electricity market but will do so if the needs of the market they operate in permit; most of the load variation by end users is not driven by the electricity market and its associated prices, but by operational needs. There are some occasions where high prices in the electricity market do signal a decision to reduce demand but this is not the prime cause of load reductions by end users.

The import of the above observations is twofold:

1. End users want to have as little to do with the electricity market as is possible while minimising their costs for electricity. The more barriers put in the way of end users, the less end users will participate and less DSR will occur. The MEU has noted that generators and retailers seek to maintain their benefits through maximising barriers and minimising competition

2. End users will focus their attention on the electricity market on times of high prices in the spot market, where they can see the benefit of involvement in the electricity market has the potential to deliver significant rewards through lower overall costs for electricity for all.

Generators and retailers want to maximise the amounts of electricity they sell at the highest price they can get as this is their core business yet end users want to use the minimum amount of electricity at the lowest cost to enable them to make the products and services they provide. If the electricity market is structured so that generators and retailers can prevent competition from minimising end user participation by imposing barriers, they will do so.

The MEU sees that to maximise end user participation in the electricity market, less the impediments to participating are needed, and the more DSR will eventuate and the more efficient the electricity market will become.

1.3 The history for the proposed rule

End users of electricity have long sought the ability to take action in the electricity market when prices are high as this results in the minimum cost for their electricity needs, particularly because the price for electricity can reach levels several hundred times more than the average cost of its production. MEU members have also noted that there are times when generators use their market power to artificially drive the price to very high levels and, by doing so, cause considerable harm to consumers.

The MEU sees that providing more tools and methods for end users to use to limit their exposure (either directly through the spot market, or indirectly by limiting retailer risk exposure) to very high prices, is a sensible and needed response to provide more balance in the power between supply and demand.

To reach this point for a rule change proposal to enable greater demand side responses to the electricity market has been tortuous and culminated late last year with modelling to identify whether the costs to enable consumers to be more responsive to the electricity market were less than the benefits that enabling such outcomes would achieve. This modelling demonstrated that the costs are less than the benefits.

Regardless of the net benefit, there is an essential aspect that is missing - that of a consumer's right not to buy when the price is high and to not be exposed to arduous involvement in a market that is complex. The MEU understands the need for this complexity is to provide a sound methodology to ensure that the lowest cost for electricity is provided to consumers while recognising that electricity, unlike most other products, cannot be readily stored.

If the electricity market is so structured that in order to deliver an efficient outcome for consumers, it requires some of the consumers to not use electricity when they would otherwise prefer to use it, then those consumers surrendering their rights need some reward to offset the costs they will incur in providing this service.

The MEU notes that, in contrast to the Snowy proposed rule change, the CEC proposed rule change reflects this reality.

But what is absent from the CEC proposed rule change is that it should have occurred already and that the current arrangements are a barrier; the current rules effectively impose a restraint on consumers being able to reduce their demand when prices are high and to receive a benefit for doing so. Consumers rightfully ask why the supply side of the market has been able to restrict consumer rights not to take supply when prices are high and to receive a benefit for their demand side response.

1.4 The way consumers access electricity

The MEU is aware of four main forms of load shedding (ie reductions in load that are not the result of operational needs) that are used by end users, viz

- Load shedding because prices are high. The amounts that are load shed are set by the price expected and/or how long the high price is expected to apply (ie the load shedder varies its load shedding schedule to reflect the expected price and duration of the high price¹) and by the amount of load shedding that can be achieved safely without risks to employees and/or the plant. Depending on the demands of other markets, load shedding, whilst giving a cost benefit, might not be possible due to the requirements of those other markets.
- Load shedding on demand of a retailer. Some end users have contracts with a retailer where the retailer provides a reduced retail contract price but with a requirement to load shed a certain amount at the call of the retailer. While the timing of the load shedding might be related to high price events or expected high price events, this load shedding is not under the control of the end user.
- Load shedding on demand of the network². Some end users are given a reduced network price but with a requirement to shed a certain amount of

¹ Some end users have a scale for their load shedding, eg some plant will be load shed at one price level and more at another higher price level. Some will not shed load unless the price duration exceeds a certain number of trading periods. Some end users can shed load within minutes and others have extended run down times limiting the financial benefit of load shedding.

² The MEU points out that some networks have agreements with large end users to shed load on demand in order to limit loading on the network. Whilst such agreements tend to be focused on larger end users, networks through load control of many residential loads (eg a/c units) also

load at the call of the network. This load shedding call is usually related to network loading rather than high wholesale prices.

- Load shedding on demand of an aggregator. The MEU is aware that aggregators are seeking to enter the electricity market and they will offer load into the market based on the ability of those contracting with them to shed load at the call of the aggregator.

In addition to load shedding to attain a commercial benefit in retail or network contracts, the MEU is aware that there are some large electricity users that load shed in order to provide FCAS in the event of an unexpected loss of supply (eg if Basslink dropped out of service with no or little warning, some large load has been requested to immediately shed load in order to maintain frequency in Tasmania). In this case, there is a cost to the end user providing the FCAS and this needs to be recovered by the end user.

Except for the decision by an end user to take spot market risk and load shed when high prices occur to mitigate risk, it is the supply side that initiates the request for load shedding. This places negotiating power with the supply side entity³ rather than there being equal negotiating powers between the parties that would lead to a balanced outcome for all.

Under the current rules, either an end user becomes a Market Participant or accesses electricity via a retailer. It is clear that, almost universally, end users access electricity through a retailer as the costs and complexity of being an end user Market Participant do not warrant the potential benefits.

End users currently select their retailer based on where the bulk of the costs are incurred (ie in the provision of electricity), rather than on the basis that the retailer relationship might be able to add value to the end user experience through other means. This means that unless a retailer is willing to provide a benefit to an end user seeking to provide demand response, then it is unlikely that the end user will participate in demand response. It is clear from the absence of significant amounts of demand response that the benefits offered by retailers to their end user clients to provide this service are insufficient to generate large amounts of demand response.

There has been an assumption (and probably still is) that a retailer acts for the interests of its end user client. In practice, a retailer acts in the retailer's interests and only in its end user client's interests when these coincide with those of the retailer. This means that, once selected, the retailer has significant control of the relationship until the end user elects to change retailer, noting that premature termination of the retail contract can be expensive.

can cause significant impacts on the overall regional demand by effectively causing the same outcome as a single large end user reducing its load.

³ For example, the MEU is aware of some end users offering load shedding to networks which the networks have declined

The large retailers are also generators in their own right (ie are "gentailers") and this also biases the retail "experience" for end users as a gentailer has a different set of goals in the electricity market to a "pure" retailer, further moving retailers' interests from being aligned with those of end users . Essentially a gentailer seeks to advantage itself through both its retail functions and its generation functions so its interests are significantly conflicted with those of end users.

With the larger retailers being heavily conflicted through their generation activities, the MEU is very concerned that the issues (and costs) raised by retailers to the demand response mechanisms being proposed are designed to prevent (or at least minimise) end user involvement.

The MEU notes the AENMC observation (page 20)

"... retailers may be reluctant to invest time and effort to negotiate these [load reduction] contracts, or may only target a small group of customers who represent the 'low hanging fruit' of demand response contracts. Although the risk of customer switching could be mitigated by increasing the contract length, customers may be reluctant to lock-in their electricity supply with a retailer for a longer time period."

The AEMC makes a good point but, equally, the MEU is aware that a retailer that acts to reduce its end user client's overall costs for electricity is more likely to retain the client when contract renewals are due⁴. The MEU considers that this is an area where retailers have to provide greater value to their clients rather than merely seeking to provide the lowest prices.

1.6 MEU comments on the proposed rule

A fundamental question that the MEU raises is "Why has it taken this long to deliver an outcome that will deliver benefits to consumers and to cede some of the power that generators and retailers have over end users in order to provide a better balance of negotiating power".

But what is concerning about rule change proposal is that it "shoots itself in the foot" by allowing retailers the choice to opt in. The MEU questions the logic behind this. If retailers have to date been so obviously unsuccessful in getting

⁴ The MEU is aware that retailers tend to consider that providing the lowest price for electricity at the time of contract renewal is what most end users want. This is true but, equally, if the retailer makes an effort to increase the end user client's savings (and achieves outcomes for the client) then contracts are extended. The MEU is aware that several of its members have retained the same retailer over extended periods of time because of the relationships built on the retailer working with its client to reduce the overall electricity costs

significant demand side responses, why allow them to decide whether or not they will provide such a service? Demand response in other competitive electricity markets provides a significant part of electricity markets. If this is the case, it appears to the MEU that the retailers (and more particularly the gentailers) have a vested interest in not promoting demand responses. Providing them an "out" by allowing them to opt in provides them with the perfect excuse not to be more active in the area. This voluntary approach is based on the misguided concept that retailers might discriminate between clients and provide some consumers with access to a service but not others. Such an issue of discrimination could be settled very quickly. A disgruntled end user seeking to provide demand response could ask the AER to investigate the reasons why the end user's retailer is not prepared to provide a demand response option. Allowing voluntary involvement is tantamount to allowing the status quo to continue!

In reality, the bulk of demand response is unlikely to be initiated by end users as most will be focused on their core activities. An end user is more likely to raise the issue with its retailer when approached by an aggregator or another retailer rather than initiate demand response of its own volition. The market already prevents demand response aggregators operating on grounds that introduction of such an approach is difficult to manage. The proposed rule change will provide the potential but is still subject to the large retailers deciding to embrace the rule. Pragmatically, unless the dominant retailers have to implement the change, then it won't succeed to the levels possible. As the dominant retailers are also generators, the MEU considers that there is a real risk that, if the opt in provision is retained, then the demand response mechanism will not be effective. It will be the pressure that the DR aggregators will put on the retailers that will result in a functioning DRM and force the retailers to provide well priced options for end users⁵.

Opponents of the rule change proposal highlight that load scheduling would be needed - a point made by Snowy in its rule change proposal and this could be an issue for DRM. However, already the market operates satisfactorily with end users exposed to the spot market reducing demand without formally scheduling this into the market⁶. Demand side aggregators could provide increased visibility by advising the availability of a demand response without the heavy impositions on end users that would result from the rule change proposal by Snowy.

The CEC and AEMC consider that the demand side will most likely only able to offer "FCAS raise" services (through reducing demand and so increasing

⁵ Many end users have commented that they do not offer DR as the benefits from doing so through their retailers do not make the loss of production worthwhile.

⁶ When done through retailers this demand reduction is not visible to the market and not scheduled (a point made by Snowy in its proposed rule) yet this does not cause significant problems to AEMO and make the market not operate successfully.

frequency). The MEU advises that a number of its members have generation embedded in their operations and could therefore provide FCAS lower services through increasing the demand from the market by reducing output of their embedded generation.

1.7 The MEU view of the rule change proposal

The MEU considers that the rule is well overdue and strongly supports the implementation of it as the overall benefits will significantly outweigh the costs.

The MEU believes the transition will take time as end users become more comfortable with the concept and this supports using a manual system in the early days of its operation. As the DRM becomes more used, those accessing and being impacted by the service will commence automating their systems.

The main objection the MEU has to the proposal is its voluntary nature; it should be made compulsory like many other aspects of the rules.

2. Responses to AEMC questions

The MEU provides the following responses to the specific questions raised in the Consultation Paper. The MEU has endeavoured to keep its answers as concise as possible and refers to the commentary in the preceding sections to amplify its reasoning.

	Description	MEU observations
1	1. Would the proposed framework allow the Commission to appropriately assess whether the rule change request can meet the rule making test?	The MEU is not convinced that a "framework" as such is really needed. The current rules impose a barrier to entry for DR and the rule change reduces these barriers. The cost benefit study already carried out shows there is a net benefit, even when using costings provided by retailers that the MEU and others consider are excessive.
	2. What changes to the proposed assessment framework would stakeholders' consider appropriate, if any?	
2	1. What are stakeholders' views on the potential barriers to demand side participation that have been set out in this consultation document? How relevant might they be? Should they be considered in the Commission's assessment?	The MEU considers that the AEMC has identified the barriers well. What the AEMC does not clearly state is that these barriers are an effective restraint imposed on consumers being able to participate in actions that should already be permitted to all end users. By not making the change, retailers and gentailers will be able to continue limiting competition to themselves.
	2. Have stakeholders identified other barriers to DSP that should be considered in the Commission's assessment? Please, explain and provide evidence where possible	
	3. What are the costs and benefits of removing	This has already been determined in the cost benefit studies

	the barriers that are identified as significant to this rule change request? Which barriers are the most problematic and/or more cost-effective to remove?	undertaken by the rule change proponent and in part by AEMO. It is clear that these studies show the benefits could have been undervalued and the costs overstated.
	4. Are there any current or upcoming changes in the market that would mitigate or address any of the identified barriers?	The Snowy proposal would increase the barriers
	5. Might there be any unintended consequences from addressing such barriers?	There will be negative consequences (especially to generators and retailers), as the introduction will increase competition and increase the supply of DR which will make the market more efficient. Increased DR will benefit the market overall as the AEMC has already identified in its Power of Choice review.
3	1. Would the proposed DRM generate useful demand-side information in relation to improving wholesale pre-dispatch and dispatch prices? How significant would this improvement be?	There is currently little or no demand side information in the market about potential load reductions. To apply load movement scheduling at the end user level will be excessively expensive, but networks, retailers and aggregators with DR previously accessed and ready to deliver could provide this information to AEMO as and when the DR is proposed to be used. Supply of such information would be a benefit to the market.
	2. Would the proposed DRM generate useful demand-side information in relation to improving the management of transmission constraints through the dispatch process? How significant would this improvement be?	As the NEM operates on a regional basis the only constraints that provide an observable signal are constraints on interconnectors. However, many constraints occur within regional transmission systems. If there are DR options that are available at a lower cost than constraining on higher priced generation, then clearing congestion through DR should be possible. In this regard, networks can provide a valuable service to AEMO by identifying, accessing and

		pricing DR in their networks to reduce congestion.
	3. Would the proposed DRM generate useful demand-side information in relation to improving the provision or procurement of ancillary services? How significant would this improvement be?	There are already instances where DR is used for FCAS. Aggregators, retailers and networks have a much better understanding of the market than do end users, so it is more likely that these providers will identify where, when and by whom DR is available. If there is competition for FCAS that can be fulfilled by DR, then the MEU considers that a market will quickly develop where DR provides such services. However, relying on end users to identify when and how such services might be provided is less likely to be successful because this is not a core business for end users.
	4. Would the proposed DRM operation result in a technology neutral approach between demand response and generation resources?	Generation will generally be the main provider of supply and most AS, as end users are focused predominantly on their own markets and see the provision of DR as a means to lower energy costs. Having an active DR sector through competition between aggregators, networks and retailers will lead to increased DR. Providing DR will generally be just one element for accessing a low cost reliable supply to the majority of end users. Because of this, the options used by AEMO to utilise DR will be based on price rather than source, and therefore will be technologically neutral.
	5. Do stakeholders think that there exist any relevant gaming risks or unintended consequences from implementing the overall proposed DRM operation? If so, how could they be mitigated in a cost-effective way?	No. The risk of gaming will continue if the rules are not changed to allow DR. Further the risk of gaming can be an outcome if there are limits placed on the implementation program such as voluntary entry by retailers (ie the opt in option) or if retailers are given the ability to select those end users they want and can exclude others.

	6. Would the DRM result in system-wide benefits and/or costs that might impact the operation and investment in electricity transmission and distribution networks? What aspects of the design would contribute to this?	The DRM has the potential to reduce the need for network investments. At the moment network investments are incentivised as this is the source of increased revenue for networks. If networks can be incentivised to use DR more widely to offset the need for investment, then there can be a system wide benefit depending on how the network rules are crafted for implementing DR
	7. Would the DRM result in improved ability for AEMO to manage system security and reliability? What aspects of the design would contribute to this?	The MEU considers that there is potential for improvement, but more importantly, the DRM will not reduce reliability or security and should reduce the costs of its provision
4	1. In stakeholders' views, are there any alternative demand response mechanism options that would not require the use of baseline consumption methodologies?	The MEU accepts that the DRM has to measure the demand side response to an identified outcome. The MEU supported the RERT (and its predecessor Reserve Trader) as it provided a clear measurable response to a perceived need. The MEU still considers that for demand side responses, a pre-agreed price for load shedding by the demand side reflects the risks faced by end users in voluntarily reducing their production when the market is faced by a need to reduce demand. Equally, the MEU accepts that such an approach does not sit comfortably with an energy only market and that a demand side response needs to be included in the generation dispatch price stack. This means that there has to be a way of measuring the actual reduction in demand seen when the DR is called. The base-line approach achieves this
	2. What might be the costs, benefits, and	The MEU understands that AEMO has developed a sound approach

	consequences from having an administrative baseline developed and then managed by AEMO?	to setting a base line against which the DR provided can be calculated.
	3. What are stakeholders' views on the proposed baseline methodologies, and the proposed assessment criteria to be applied when assessing baseline consumption methods?	See above comment
5	1. In stakeholders' views, how effective would the proposed DRM design be in preventing the exercise of potential gaming opportunities?	The MEU is aware that some end users are prepared to shed load at prices below the MPC. When generators are aware they face a risk of not being dispatched if they price their generation too high, the DRM will place downward pressure on generators using rebidding, ramp rates and economic withholding to inflate the spot price.
	2. Are there alternative options to improve upon the current design to manage gaming risks?	The MEU is aware that there have been a number of proposed rule changes to limit gaming through the exercise of market power (including ramp rates, economic withholding, rebidding to name a few) yet the AEMC has been loath to implement these proposals to the extent sought by the proponents. DRM has the potential to provide some counter to the gaming practices of generators.
6	1. Does the proposed DRM design appropriately capture and address all potential interactions between the DRM and other demand side participations options in the NEM?	
7	1. Are the proposed prudential requirements	The imposition of prudential requirements imposes barriers to entry -

	on DRAs and retailers appropriate?	the higher the requirements the higher the barriers. The risk to DRM is that the DRAs and retailers will seek to transfer these requirements to end users and the higher the requirements, the less DR will be provided.
8	1. Do stakeholders have any observations over the proposed changes to the way the costs of ancillary services would be recovered from DRAs and/or retailers?	The proposals appear to be based on what would be paid by retailers in the absence of the DR. This is appropriate as it does not change the retailer risk profile. DRAs should be rewarded only for what is delivered to the market. On this basis, the MEU considers the recovery of costs proposed is reasonable and appropriate.
	2. Do stakeholders have any observations regarding the proposed changes to the compensation cost recovery from retailers?	See above
	3. Do stakeholders have any observations regarding the proposed changes to the way the operating costs would be recovered from DRAs and/or retailers?	See above
9	1. The Council proposes a voluntary approach for retailers to enable their customers to participate in the DRM. How effective do stakeholders think this voluntary approach will be in encouraging retailers to enable their customers to opt-in into the DRM?	The MEU disagrees with the proposal as it leaves the market open to manipulation by retailers. See comments in 1.6 above The MEU considers that the rules should be changed in full to allow DRM and require all parties to comply with the requirement from commencement. To do anything else will result in a less than satisfactory outcome for consumers. The Power of Choice review commenced in 2011 and a final report (including a proposal for the DRM) was released in late 2012. Since then, there has been another three years for retailers and others to

		<p>make progress towards enabling the concept so further delays will continue the imposition on consumers of higher prices than needed. To provide a further unlimited grace period by allowing for the retailers to elect to participate is tantamount to providing an ability of the supply side to continue its program of opposition to the implementation DRM</p>
	<p>2. What are stakeholders' views on allowing manual billing as a viable short term solution to encourage retailers to enable their customers to opt-in the DRM?</p>	<p>The MEU sees this as a sensible compromise to an immediate requirement for a fully compatible IT base. Pragmatically, the MEU considers that the take up of DR under the DRM will be relatively slow, and a manual system in the early period of the DRM operation should be more than adequate.</p>
<p>10</p>	<p>1. The Council proposes a voluntary approach for retailers to enable their customers to participate in the DRM. How effective do stakeholders think this voluntary approach will be in encouraging retailers to enable their customers to opt-in into the DRM?</p>	<p>As noted above, the MEU considers that retailers have had adequate time to implement a DRM. Providing a voluntary approach will allow retailers more time to oppose the implementation. As the bulk of electricity sold is through the large retailers (who are also generators) the MEU considers that they have a vested interest in not actively seeking their customers to take up DRM. Overall the MEU considers that allowing a voluntary take up will result in DRM being minimised.</p>
	<p>2. What are stakeholders' views on allowing manual billing as a viable short term solution to encourage retailers to enable their customers to opt-in the DRM?</p>	<p>The MEU considers allowing manual billing is a sensible compromise pending implementation of a full IT build</p>
<p>11</p>	<p>1. Do stakeholders agree that current market arrangements where only market participants</p>	<p>Yes. Experiences from other competitive electricity markets show that FCAS can be more competitive if the demand side is allowed to be</p>

	<p>that purchase or sell electricity on the wholesale spot market can participate in FCAS markets are a barrier to entry that restrict DSP in the FCAS markets?</p>	<p>involved. As the Market Participants involved in providing FCAS are the generators, the big retailers (being gentailers) have a vested interest in preventing entry of more competition in the FCAS market. Therefore limiting FCAS providers to just Market Participants has the potential to limit end user involvement in providing FCAS unless at the request of their retailer (which is likely to be a gentailer) and therefore has a conflict of interest.</p>
	<p>2. Do stakeholders agree that facilitating entry via greater DSP, either as individual or aggregated loads, can result in lower cost and higher quality provision of FCAS services while minimizing the scope to exercising market power in these markets? Do stakeholders have any particular evidence to support their views?</p>	<p>Yes. MEU members were asked to provide FCAS to the Tasmanian market in the early days of Basslink operation but this was through a Market Participant. The fact that this request was made is indicative of the view that DSP can provide these services. If such requests remain the purview of market participants, this will the demand side involvement, and continue the current potential conflicts of interest. The MEU is aware that DRAs aggregate FCAS in other electricity markets such as in New Zealand, Alberta, Germany, Austria, and even Switzerland. The MEU is advised that in NZ, in particular, typically 80+% of their equivalent of FCAS raise services come from industrial loads, as industrial loads are prepared to provide the service at lower costs to generators.</p>
	<p>3. In which category ancillary service provision do stakeholders believe that entry will be more likely? Are there any foreseeable future changes that might broaden the scope of entry in markets where demand response has generally not been able to provide ancillary services?</p>	<p>The MEU does not consider that the AEMC (or rule proponent) should decide which services should be provided by DSP. Any attempt to do so breaches the concept of technological neutrality. The MEU considers that all ancillary services should be made available to competition by DSP, and the market will decide which services are best provided by DSP.</p>

<p>12</p>	<p>1. In stakeholder's view, how would the ASU proposal impact on the cost of balancing supply and demand in the NEM?</p>	<p>The MEU considers that the proposal will increase competition in provision of ancillary services and therefore this should lead to a reduction in costs to consumers. The MEU does not consider that the proposal will increase costs of balancing supply and demand.</p>
	<p>2. Would the ASU proposal result in improved ability for AEMO to manage system security and reliability? What aspect of the rule change would contribute to this?</p>	<p>AEMO is the best (perhaps the only) stakeholder to answer this question with full understanding. Certainly the MEU considers that the proposal would not reduce AEMO's ability to do this function</p>
	<p>3. Would the ASU proposal result in reduced ability for AEMO to manage system security and reliability? What aspect of the rule change would contribute to this?</p>	<p>See response above</p>
<p>13</p>	<p>1. Does the ASU proposal appropriately capture and address all potential interactions with the proposed DRM?</p>	

