



Submission by

Alternative Technology Association

on

**Demand Side Participation Review: Stage 3 –
Directions Paper**

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1.0 Introduction

Founded over 30 years ago, the ATA is a National, not-for-profit organisation whose 6,000 members are residential energy consumers with an interest in sustainable energy and resource use.

Through the application of our in-house expertise and experience in the energy market to our continuing advocacy and research, and close collaboration with fellow members of the National Energy Consumer Roundtable, the ATA is an important voice for energy consumers Australia wide and in each of the NEM jurisdictions.

ATA presents a uniquely two-fold perspective in the DSP policy debate: as well as directly representing all Australian energy consumers through our support of improving energy affordability through improvements to the energy market that have net benefits to all consumers, we speak with authority on behalf of the growing portion of the consumer base who have an active interest in DSP.

While ATA's membership is diverse, many members are of above average energy literacy and keenly await opportunities for DSP. Many ATA members play an important role in the development of DSP as the 'early adopters' of new and emerging technology, which in the context of DSP is vital to bring about the uptake and maturation of any new technology.

As a leading consumer organisation in the energy policy space, ATA plays an equally important advocacy role working with energy market participants and institutions, other energy businesses and state and Commonwealth governments to ensure that new opportunities for DSP are introduced in such a way that, by achieving the aspirations of the National Electricity Objective, DSP becomes part of the solution to the problem of increasing energy prices caused by unrealised potential efficiencies in the NEM.

ATA thanks the AEMC for providing opportunities to contribute to DSP3, and would welcome the opportunity to discuss our views directly with the Commission.

1.1 Overview of Changes Required To Facilitate DSP

ATA's view is that given the now overwhelming evidence in regards to the inefficient cost increases occurring in the NEM as a result of increasing peak demand, decreasing load factor, and an over-reliance on centralised electricity generation, a number of changes to the NER, and possibly other regulatory and legal instruments of the energy market, are necessary to ensure the achievement of the NEO and in particular serve the long term interests of consumers as enshrined therein.

These changes would create improved efficiencies at the wholesale market, distribution, transmission and retail level by driving down energy prices from their current steeply projected incline by:

- creating a level playing field between DSP service providers and existing market participants through the creation of the new DSP market participant that can participate in all markets of the NEM (not just the ancillary services markets).
- allowing third parties such as load aggregators (i.e. those businesses that commercially contract loads to respond to specific wholesale market prices and network conditions) to provide energy services directly to consumers.

- unbundling services at the connection point and so allowing more than one Market Participant to provide services to, or facilitate provision of services to the market by, any customer at any connection point of that customer.
- the creation of new service provider role to facilitate competitively neutral access to consumers, particularly in the context of services enabled by smart metering and related DSP products, for retailers, distributors, and third parties.²
- the introduction of stronger NEM-wide incentive schemes to set a minimum level of adoption of DSP by networks (or other parties in their stead) as alternative to more expensive poles and wires solutions to network constraints.

Consumers want the market to be designed to encourage DSP opportunities such as this to be realised when they present greater value to consumers than existing wholesale market arrangements.

ATA contends that the Commission should accept that the problems relating to peak demand, over-investment in networks and more expensive supply side generation are fundamental in nature and therefore require consideration of fundamental market design and regulation in order to capture the significant opportunities that exist on the demand-side of the network. Until this is the underlying basis for considering DSP, consumers will realise little benefit from piecemeal DSP reforms.

1.2 Reestablishing the Primacy of the NEO

The NEO must be considered at all stages of NEM policy development and implementation. The NEO should underpin every high level decision made in the NEM, but all too often it is lost in the noise of implementing policy and market design.

In a number of energy market related committees and processes relating to DSP in which the ATA has been involved, for example in relation to smart metering, we have to push to have the NEO considered as a guiding principle, and sometimes without success where vested interests have prevailed.

ATA is of the view that as a result of the failure of the NEO to be considered, particularly at the level of policy design and implementation, the energy market has failed in many ways to achieve the NEO. In our view, the NEM has often been more successful at protecting the long term interests of a number of market participants and network service providers than it has of protecting the long term interests of consumers.

² The Customer Function Service Provider role considered in the Nation Smart Meter Program could perform this exact role.

2.0 DSP and Protection of Investment Infrastructure

ATA recognises the need to protect existing asset investments made within the NEM to the extent that it is in the long term interests of consumers. We caution however against continuing provision of preferential treatment to existing or future investment in supply side solutions at the expense of efficient demand side solutions that would lead to more efficient outcomes and are therefore in the long term interests of consumers.

There are a host of demand-side technologies and associated services that, particularly when aggregated, could more cost effectively meet NEM needs regarding physical network constraints and wholesale/retail market operations than equivalent supply side solutions. To meet the long term interests of consumers, the NEM needs to remain attractive to future investors, and facilitating investment in DSP related services that deal directly and efficiently with peak demand will achieve this.

It is a common argument from centralised generation businesses, and some of the retail businesses that own or contract off-market with them, that the removal of various barriers to DSP - such as changes to allow load aggregators to participate in the wholesale market - would reduce the profitability of some existing generators.

Often these arguments are highly questionable, particularly those regarding the impact that a reduction in their profits may have on the market and therefore on consumers; for example, claiming that the long term reliability and security of supply will be at risk.

Given that there are reliability requirements placed on generators and penalties for failing to comply with these, it is concerning that generators would suggest that they would be prepared to routinely be in breach of their reliability requirements, as would have to be the case if the claims regarding reduced reliability were correct³.

Even in the event that some centralised generators' profits were reduced to the extent that they could no longer operate and they had to withdraw from the market, it is nonsensical to think that this could negatively impact consumers, as the value placed on reliability by most customers is ample to ensure that, in a competitive market, there will be an ongoing role for cost effective mixture of competitive generators and demand response measures to meet the energy needs of consumers even with far higher levels of DSP than we have now.

If the Commission is considering such claims by generation of retail businesses as part of this review, ATA requests that the Commission require the parties making such claims to address the points raised by ATA above.

³ It has been suggested that some generator businesses with diverse portfolios may currently allow some assets to run close to the margin of their reliability requirements, to reduce opex and possibly to allow increase the spot price of energy and hence their returns in another area of their portfolio. This suggests that the reliability requirements currently allow these generators some flexibility with regard to reliability, and any measure that reduces this flexibility may also reduce the risk of 'gaming' and therefore the risk of increased spot market prices, thus being clearly in the long term interests of consumers.

3.0 Achieving Efficient Investment with DSP

3.1 Split Incentives

The disaggregation and privatisation of our energy market into regulated monopoly poles and wire businesses and competitive retail and generation has created split incentives which are working against the long term interests of consumers.

The way businesses in the NEM profit can generally be summarised as follows:

- Generators: Sell more energy at higher unit cost.
- Retailers: Sell more energy by volume to their customers, and reduce risk (achieved mostly through vertical integration and off market agreements with generators which, also reduces their adaptability to market conditions).
- Distribution and Transmission: Build, own and operate more poles, wires and associated infrastructure. While network businesses would also potentially profit in the short to medium term through efficiency gains from implementing cost effective DSP to avoid planned network augmentation, and such gains would eventually flow through to consumers, history tells us that growing their regulated asset base is the preferred outcome when distribution businesses are faced with choices about investment. Currently, distribution businesses tend only to deploy DSP as a contingency measure to defer capital expense for short periods of time.

Consumers, who provide the revenue for all the above parties, are the only party that has a vested interest in the efficiency of all parts of the NEM supply chain.

Under current market arrangements, retailers and network businesses could theoretically work together to overcome some of the split incentives through providing demand side services to consumers. While the energy market arrangements continue to evolve in most NEM regions, the markets are arguably reasonably mature. Again, if existing market arrangements could be relied upon to deliver DSP and resultant efficiency benefits to consumers, then this would have occurred by now. Clearly it has not.

In the absence of strong policy measures, extant NEM parties simply cannot be relied on alone to deliver the potential benefits of DSP. In most cases, DSP is in direct conflict with their business models.

The introduction of measures that allow the capturing of split incentives through DSP is critical to realising the NEO.

3.2 DSP Solutions

Regardless of one's view on which market arrangements are best suited to the Australian context, there are obviously material market-wide efficiency gains that could be made by implementing any of a range of demand side participation based solutions that could be made to place significant downward pressure on the cost of supplying energy to consumers.

These solutions have the potential to improve efficiency and reduce costs along all or part of the energy supply and demand chain - household and business energy use, distribution and transmission, generation and retail – yet, as noted above, usually no single National Energy Market party can make a sound business case to promote any one of these based on the gains or improvements to their business alone. These options include:

- Distributed generation;
- Demand response;
- Distributed energy storage;
- Appliance and plant efficiency;
- Smart - or at least smarter - networks;
- Behaviour change.

Technically, practically, and economically, all of these measures could be implemented to the extent where the long term interests of consumers of electricity with respect to price, quality, safety, reliability, and security of supply would outweigh the costs incurred.⁴ ATA therefore considers that it is in keeping with the NEO to make changes to the NER to compel or incentivise existing service providers and market participants to implement measures to realise these benefits.

3.3 New Market Participants & Service Providers

Creation of new roles in the NEM, such as load aggregators that can both act as a market participant (including on the spot market) and a service provider to small customers, is a necessary step in realising the potential NEM-wide benefits of DSP.

One of the key benefits to the market that would be brought about by allowing third parties to enter is increased competition, through, for example:

- Competition between retail businesses and new third parties such as load aggregators:
 - Some retailers have raised concerns regarding the impact on the revenue from the generators that they own and/or contract energy from, mostly in off-market arrangements. ATA contends that the long term consumer interest, in line with the NEO, outranks the long term interests of either retailers or generators in this regard.
- Supply side generators and new third parties such as load aggregators:
 - There is a clear area of potential benefit to consumers when load aggregators can contract large volumes of load and trade that directly into the spot market, when it is cheaper than the next most expensive supply-side generator. This is not novel, is commonplace in other energy markets around the world, and has been discussed for many years in relation to the NEM and its status as an ‘energy only’ market.

Given the problems associated with peak demand through the NEM leading to business cases being realised for generators that may only ‘switch on’ for a small number of hours in any year, it is clearly nonsensical to posit that consumers would not benefit from price reductions more

⁴ ‘Non energy market centric’, and often non-technological solutions such as building envelope efficiency improvements have comparable or even greater benefits than those in the three examples that follow, but are a step further removed in that they are services traditionally not delivered by NEM entities.

cost effective load curtailment being traded directly into the wholesale energy market. There are a number of businesses that are seeking to better participate in the NEM in this way, and the AEMC and AEMO should be working closely with these businesses to realise this potential in the near and long term.

- Competition (effectively) between regulated NSPs and providers of non-network solutions to meet energy supply needs. NSPs may not always be the best parties to, or may lack interest in, promoting non-network alternatives to expensive network upgrades. Specialist third party service providers are often the best placed organisations to do this.

With regard to issues of consumer protection in relation to these new service providers:

- Currently, protections under the Australian Consumer Law, alongside facilitated access arrangements which can be developed without significant reform (via retail and/or distribution businesses currently covered by the NECF and jurisdictional provisions) are adequate to ensure consumer protection, however
- In the future as DSP starts to evolve and mature in the market, it would make sense to develop specific policy within the NEL and the NER to govern the activities of third parties, possibly as part of the work of developing the NECF for smart meters⁵.

We note that while the ENA are supportive of consumers' choice of who manages their load, some NSPs are concerned that allowing retailers or third parties to provide services such as direct load control may present issues for network control. We acknowledge that any substantial variation to how loads operate on networks is likely require attention and response, however we also note that:

- this is not a new issue, nor is it likely to become more material under a high DSP scenario than it is currently. The use of time switches at customer premises for off peak hot water has created the need for distributors to consider and respond to issues of demand placed on the network in Victoria and South Australia. These are normal issues for NSPs to deal with and, importantly, while there is a cost to doing so, the long term benefit to consumers of avoided network augmentation, and the direct benefit of being able to access cheap off-peak energy, and has clearly outweighed this and other costs by a large margin.
- there are much bigger, more expensive existing problems, such as upgrades and operational changes to the networks required to meet the energy needs of the increasing number of split system air-conditioners on the networks. While the costs arising from this are effectively passed though to all consumers, the benefit is only provided to the 'causer' (i.e. each new split system owner). This is in contrast to the benefit of DSP, which, if priced equitably, is shared across all consumers.
- the providers of load control services as an alternative to network upgrades will still have to satisfy regulatory investment tests to clearly demonstrate that the benefits of any such program outweigh the costs when compared with network augmentation. If, on that basis, they are not the most efficient solution, they will not be chosen. These tests will include consideration of network impacts.

⁵ Provisions for smart meters are outside of the scope of the NECF implementation to date. The EMRWG under SCER are undertaking a review of consumer protection and safety for smart metering which is expected to feed into the development of NECF for smart meters. Consumer protection and access arrangements pertaining to the 'third party service providers are being considered as part of this review.

- NSPs in other parts of the world have been able to deal with these challenges through operational improvements and the increasing sophistication of grid operations that becomes available with modern/smart grid technology.

ATA note however that while NSPs should not place barriers in front of the broad adoption of DSP it is imperative that the operational needs of networks are considered in the implementation of DSP

3.4 Unbundling of Services at the Connection Point

Currently, only one financially responsible market participant can contract with a consumer at any connection point of that consumer. Due in part to the vested interests of retailers generally being unsupportive of DSP, this restricts the ability of DSP proponents to monetise the potential value of their participation in the energy market.

For this reason, effective DSP will require provisions to be made to allow the unbundling of services at the connection point and so allowing more than one market participant to provide services to, or facilitate provision of services to the market by, any customer.

The types of services that should be differentiated in this context include:

1. The traditional retailer role of sale of energy to the consumer
2. The role of market generator (or generator aggregator) facilitating the sale of generated energy onto the market (or potentially for network support)
3. The future role of 'load aggregator', contracting demand response from the consumer and selling this into the market (or potentially for network support)

ATA notes that AEMO is supportive of the creation of new market roles and also of unbundling of services at the connection point, and these requirements are also important in the context of realising the potential network benefits of electric vehicles.

3.5 Incentives for Distribution Networks – Peak Demand Reduction Target

ATA strongly supports the AEMCs efforts to consider the incentives for distribution – and transmission - businesses to invest in and facilitate DSP where it is in the long term interests of consumers to do so.

With many billions of dollars worth of new and replacement network infrastructure being built each year, the current level of investment in non-network solutions is widely agreed to be inadequate, and the level of expenditure on poles and wires to meet peak energy needs for just a few hours per year is grossly inefficient, resulting in higher costs that are not in the long term interests of consumers.

It is also generally agreed that network businesses achieve higher returns by investing in infrastructure that grows their regulated asset base, and so implementing demand side solutions to dealing with networks constraints is unattractive.

The regulations of the NEM are intended to serve the National Electricity Objective (NEO) and supply electricity to consumers through efficient investment. As described in this submission, the current uptake of demand management fails to achieve this and does not meet the long term interests of consumers.

This is because the regulatory structure of the NEM inhibits demand-side participation and biases supply-side solutions such network augmentation and centralised supply; and the NER does not include appropriate incentives for NSPs to invest in demand management projects.

In addition, incentive schemes like the NSW D-Factor have had little success in overcoming these issues as they have not led to efficient levels of demand-side participation in the NEM. The jurisdictional nature of such schemes is also problematic.

In the absence of major regulatory change to ameliorate these issues, a demand management target and supporting scheme could be established as soon as 2014, with a uniform target that applies across all NEM regions. To support this, the AEMC should investigate the potential and benefits of a demand management target and supporting scheme as part of this review.

3.5.1 Incentives for Networks - Demand Management Targets

A demand management target would be a regulatory instrument designed to reduce peak demand on transmission and distribution networks and could be configured in a number of different ways. Targets, for example, could be:

- based on a reduction of peak demand:
 - when compared with:
 - forecast; or
 - historical demand;
 - as a proportion of:
 - network wide peaks (e.g. 5% of forecast maximum demand); or
 - peak growth (e.g. 75% of the forecast increase in maximum demand);
- applied to all or part of transmission and/or distribution networks. For example, an average target could be applied to a network with the business able to choose the areas of most effective deployment of DSP, based on the areas of highest constraint on transmission and distribution networks;
- set annually or in line with five yearly distribution pricing reviews; an
- derived from independent modelling to estimate projected peak demand increases.

To ensure it delivers cost-effective reductions in network augmentation, a demand management target could be met through a certificate scheme which imposes direct requirements on NSPs to support demand management opportunities in their operations and for their customers.

As well as NSPs, embedded generators, retailers and accredited third parties such as load aggregators would be able to create peak demand reduction certificates, which could be verified and registered by an independent regulator⁷.

NSPs would then be required to surrender certificates equivalent to their target or pay a penalty. The penalty rate effectively places a cap on the price of peak demand reduction certificates. We note the such a scheme should be designed to reward NSPs for efficient investment: the targets and

⁷ Allowing trading of certificates between networks within a region may be an effective measure to target the most efficient opportunities for peak reduction.

certificate prices could be set in such a way, for example, that the businesses are only penalised for failing to reach their targets and are rewarded for reaching or exceeding their targets.

Certificate schemes are commonplace in the energy market as they are an efficient measure to encourage least cost investment. If designed properly, a demand management target scheme will facilitate investment in DSP where it is more cost effective than network augmentation, therefore having a net cost benefit and so being in the long term interests of consumers.

3.5.2 Recommendations

1. That the AEMC investigate the potential designs and benefits of a demand management target and supporting scheme as part of the AEMC Review of the Role of Demand Side Participation Stage 3.
2. That the AEMC recommends to SCER to implement a demand management target, with a view to introducing a uniform scheme to all NEM regions as soon as 2014.

3.6 Further research required to better understand the ability for residential consumers to trade off reliability for improved energy prices with DSP

ATA are of the view that more research is required to understand in detail the potential for residential consumers to trade reliability for cheaper end-use electricity prices.

While 100% reliability of supply at all times is critical for a small number of consumers, this comes at a high cost, and the reliability incentives for distributors and market participants are inflexible and place artificial barriers on the participation of consumers who are in a position to be more flexible in their energy use.

As continually evidenced in all aspects of network planning, pricing determinations and regulatory investment tests, the apparent need for Network Service Providers to meet high customer reliability levels is justification for continued expensive investments in distribution and transmission network.

ATA, along with other consumer advocates, argue that there is an over-emphasis on rigid broad-brush metrics (such as System Average Interruption Frequency and Duration indices and the energy based Value of Customer Reliability) as a means of estimating and valuing the need for continuous supply of energy, to the detriment of electricity consumers, particularly through over-investment in electricity networks to meet peak demand.

AEMO recently reviewed the methods of determining the Value of Customer Reliability. Through this process, the over-emphasis on total unserved energy used for VCR became clearly apparent. In spite of a range of flaws being put to and acknowledged by AEMO and their consultants, there have been no advances in the estimation of consumer's reliability needs in the market.

Aside from the fact that it is intended as a network investment tool and yet is used in contexts for which it is not designed, one of the flaws in VCR most pertinent to consumers is use of an absolute energy-based value which does not allow, for example, the correct valuation of the many 'partial supply' solutions which could be available to those consumers who do not require unrestricted access to energy at all times. Such solutions include direct load control, voluntary supply capacity control/limiting and other demand side participation, and could financially benefit participating individuals through incentive payments or reduced charges as well as all electricity consumers through reduced network expenditure and higher efficiency.

Further, the reliability incentives placed on networks are based on network-wide SAIDI and SAIFI figures which are an inefficient measure of reliability.

Valuing reliability of supply is a double-edged sword, with some consumers not in a position, or unwilling, to forego reliability regardless of an economic trade off, and these customers' needs must be accounted for when developing any approach to reliability.

The treatment of all residential consumers as equal in terms of their ability to compromise supply reliability in return for a financial trade off makes it difficult to assess the value of both demand side and supply side investments.

ATA recommends that, as part of DSP3, the Commission undertakes further research specifically to fully understand the potential for different classes of residential customers to manage their reliability for cheaper end-use electricity prices and benefits that can be shared with the rest of the market.

4.0 Comments Specific to AEMC Overview Summary Paper

4.1 Definition of DSP and DSP actions

In the footnote on page 4 and the second paragraph of page 12 of the Overview Summary paper, definitions of DSP are proffered that define DSP by only the timing and volume of energy use for a customer, such as

"We define DSP as the ability of consumers to make informed decisions about the quantity and timing of their electricity use."

The fourth and fifth paragraph on page 12 also suggest that for all types of DSP a customer's consumption pattern must change:

"At the core of all forms of DSP, the consumer is willing to change its electricity consumption pattern in return for some form of reward as compensation."

These definitions and views are not correct as they do not cover some DSP actions such as distributed generation. ATA are of the view that getting these definitions right is important and accordingly they need to be broadened to acknowledge the full range of actions available to customers, which are noted in third paragraph of p12.

Page 11 of the overview summary paper lists residential sector opportunities but misses two actions:

1. Residential embedded generation, which is commonplace
2. The future market for residential customers to provide non-energy based network support. It is likely that in coming years we will see, for example, grid connected renewable energy generators that will offer reactive power / power factor correction to networks

4.2 Understanding consumer needs

ATA supports the AEMC's observations on the need for further investigation of consumer engagement needs (Page 6 of the AEMC Overview Summary paper) and notes that, in keeping with our notes in section 4 above and the AEMC's own observations on Page 11, in the context of DSP, this research needs to consider the different needs and capacity to participate of different classes of residential consumers.

4.3 Conditions and opportunities for DSP

Page 13 of the Overview Summary notes the conditions required for efficient DSP. For reasons noted in various parts of this submission, ATA feels that these conditions should be expanded to include "A level playing field for market participants to be able to provide DSP services to consumers and participate in the energy market"

Page 15 of the AEMC Overview Summary paper states:

"Each segment of the market (that is, the wholesale market, networks, retail businesses and other parties) can play a role in facilitating uptake of efficient DSP."

ATA agrees that in a more efficacious market this theory would have become practice, and the current lack of DSP clearly demonstrates this failure in the NEM.

To take one example, after paying for smart meters each quarter for almost three years now, Victorian consumers still cannot access the data captured by the meters to use this data to better manage their electricity consumption, compare tariffs, or take advantage of time of use pricing to shift load and save money.

And yet to date, only two out of five distributors have a limited trial (not yet available to all consumers within their network) of an online portal to access this data, no retailers look like providing this data in the near future, and Victoria still does not have ToU tariffs that offer consumers a reasonable opportunity to switch products, shift load and save money.

If it were in the retailer's or network businesses' interests to play a role in facilitating the uptake of DSP, then this would have occurred with respect to meter data access and competition within ToU tariffs by now. It has not, and Victoria is still nowhere near this reality, at the ongoing expense of Victorian consumers.

Demand side opportunities will only be 'balanced' with existing supply side options when:

- traditional market participants are regulated more closely to deliver them;
- governments step in to provide a particular service (e.g. an information hub); and/or
- third party services providers with a direct and uncompromised commercial interest in providing DSP services, such as load aggregators, become a recognised Market Participant, have full access to relevant data, can trade in all parts of the energy market and, where relevant, complete directly with existing Market Participants..

4.4 DSP and Wholesale and Ancillary Services Markets

ATA notes on pages 16 and 17 of the AEMC's Overview Summary paper, various points relating to the current ability and flexibility that demand side resources have to engage with the NEM. Examples include:

"Participants who control potential demand side resources have greater flexibility in how they participate in the market than equivalent sized generators..."

ATA contends that this statement simply does not reflect the reality of the barriers to realising the benefits to cost effective demand response in the NEM that render each of these options sub-optimal. This section goes on to say

"Demand side resources have a choice to either participate as a scheduled load..."

Crucially, scheduled loads are unable to participate in the energy spot market, meaning they are unable to directly access energy market prices, which is where they stand to offer the most value. Scheduled loads are limited to participating in ancillary service markets. In fact, energy markets across the world allow scheduled loads to compete with generation to efficiently meet the energy needs of their consumers, with Australia being one of few exceptions.

"...register as a market customer without registering as a scheduled load..."

The lack of viability of this option is clearly indicted by the lack of participants undertaking it. One of the numerous barriers to the uptake of this option is that market customers are directly exposed to spot market prices, and this is not an acceptable risk for most energy users.

“...or simply to respond to the published wholesale price and negotiate a pass-through tariff with a retailer”

As discussed earlier in this submission, many retailers have significant financial interest in generation assets and off market contracts with generators, and little interest in passing through any significant volume of the cost benefit of load shedding.

If the availability of these sub-optimal options represented a real opportunity to providers of a demand side resource to engage with the NEM, then there would be a significant amount of DSP activity occurring within the NEM now. Clearly, there is not. As the AEMC observes on p15:

“...such contracts do not appear to be widely available in the market”.

This is despite the fact that, if the benefits of demand response were able to be monetised on the NEM, the adoption of any number of demand side resource opportunities would present better value to all consumers over the longer term through avoided peak demand, avoided infrastructure investment, or lower wholesale pool prices.

Further, unscheduled load shedding has impacts on the accuracy of AEMO’s system load forecasting, and if these loads could instead operate as scheduled loads on the spot market such impacts would be alleviated.

4.5 Changes to wholesale arrangements for DSP

On pages 16 and 17 of the AEMC’s Overview Summary ,the Commission states that:

“We note that a number of stakeholders have raised the need for significant changes to the current wholesale arrangements as a means to better facilitate DSP. Such options range from introducing an uplift payment, increasing the market price cap, paying DSP resource at their bid prices, introducing day-ahead market or capacity markets.”

“The Commission is of the view that such mechanisms may not be the most efficient means to achieve an efficient demand/supply balance. The options noted above have been reviewed in other processes and have not been supported due to their economic implications, including cross subsidisation, complexity of design and compliance requirements. Furthermore, as such changes would represent a significant reform to the current market they would require a major separate study on their own. Such assessments are outside the scope of this review.”

ATA is astounded by the above statements. If Stage 3 of this review is not about considering how to facilitate the adoption of the most cost effective DSP measures to deal with the problems of peak demand and over-investment in networks and the more expensive supply side generation, then we questions what benefit this review is to consumers.

ATA is aware of load aggregators who, with access to meter data and the ability to trade directly in the wholesale market, can offer capacity to AEMO at a significantly cheaper price than the more expensive supply side generators.

However, due to the inability of these aggregators to currently trade directly into the wholesale market, and the inherent conflict of interest that gentailers have with respect to contracting load

aggregation at the potential expense of their generation assets, this potentially significantly valuable DSP option is not realised, at the considerable expense of all electricity consumers.

ATA recommends that the Commission respond positively to continuing repeated calls, by numerous stakeholders, to undertake to make changes to the NER in the short term, and recommend to COAG to commence investigations into the reform required in the long term, to facilitate the improved market efficiencies that would be achieved by measures such as allowing scheduled loads to participate on the energy spot market.

Further Contact

Thank you for the opportunity to provide comment to this process and please do not hesitate to contact Craig Memery (Craig.Memery@ata.org.au or (03) 9631 5418) or Damien Moyse (Damien.Moyse@ata.org.au or (03) 9631 5417).

Yours sincerely,

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