ENERGY RESPONSE linking demand with supply in the Australian energy market

3 September 2009

The Australian Energy Market Commission
AEMC Submissions
PO Box A2449
SYDNEY SOUTH
NSW 1235

By email to: aemc@aemc.gov.au

Re: Reliability and Emergency Reserve Trader

Thank you for the opportunity to make this submission.

Energy Response applauds the MCE and AMEC for progressing a demand-oriented scheme, namely RERT. However, we have concerns that the implementation of the scheme has some serious flaws:

1. Under the proposed arrangements RERT will be attractive for large end users with Demand Side Response (DSR) capability of 10MW or more who currently dispatch their DSR via their Retailer. These organisations usually share a proportion of the spot price with their Retailer, however, by contracting directly through RERT these end users will cut the Retailer out of this deal and claim the maximum price possible through RERT (possibly at VoLL).
2. Aggregators, such as Energy Response, on the other hand must contract with end users for the provision of DSR to aggregate 10MW or more. Contracting with end users for a program that may or may not happen is highly undesirable:
    a. It incurs significant sourcing costs for the aggregator, which will not be recouped;
    b. End users usually have to go through considerable effort to get agreements signed and to test/verify their DSR, which is a wasted effort (and at a cost to the end user) if the DSR is not required for the season;
    c. Energy Response's credibility and ability to contract with end users in ensuing years will be negatively impacted if the end users who had gone to the trouble of getting approvals and making preparations are never dispatched.

    Therefore the proposed RERT arrangements impede market access to medium and small DSR providers who could provide their DSR contribution via an aggregator.
3. The short notice provided to the RERT's emergency response program suppliers also works in favour of the aforementioned larger end users. These end users

generally have engineering support and some even have a 24 hour operations desk, therefore a quick response can be easily provided. Aggregators will need to employ technology to ensure a firm response within a relatively short period. These enabling technology systems can be purchased by the aggregator and/or the end user but neither will invest unless there is surety of an ongoing viable cashflow. The "dispatch only" fee does not provide a regular/known income.

4. The issue of "double dipping" has been highlighted through our response during the consultation process on RERT. We hope that logic and sense will prevail.
5. AEMO will find the administrative burden of the RERT scheme overbearing. Since the scheme is unattractive to aggregators then each individual end user joining the scheme will need to be contracted and managed individually. AEMO is not set up to verify and test DSR, it does not have appropriate scheduling software, nor a dedicated SCADA for remotely switchable DSR, nor does it have the processes, or methodologies, or skills to understand how each source of DSR operates, their limitations and how to promote the best outcome. These are specialist functions that need time, experience and resources to develop. The best option for AEMO would be to outsource part or all of the RERT related functions to a DSR aggregator.
6. The proposed RERT program is partly an "emergency response" program. Energy Response understands emergency response programs as we have participated and continue to participate in them all the time. These programs must rely on known amounts of DSR, acting within predetermined timeframes and with predictable outcomes. The proposed RERT program has none of these features, does not encourage firm DSR and therefore will not be a dependable emergency capability.
7. Scaling the amount of DSR available to the NEM via the proposed RERT program will also be problematic as there is a very finite amount of large (ie over 10MW) DSR; most of which is already active in the NEM. Effectively, the proposed RERT program will not deliver any new DSR to the NEM (as stated in point 1 above the proposed RERT incentives are attractive only to existing large DSR providers who already are participating in the NEM through their Retailer). Comparing the NEM with the West Australian Electricity Market (WEM), the WEM has successfully scaled up to 260MW of DSR as reserve capacity available from October 2011. The WEM is about one tenth the size of the NEM and yet it has far more DSR available. Other "energy only" markets like the NEM have implemented DSR programs (eg 2,000MW of reserve and emergency response capacity at ERCOT) so it is difficult to understand why the AEMC has opted for a RERT program that has such limitations and shortcomings. We estimate that up to 4,000MW of DSR could be active in the NEM and up to half of that for emergency response with a fair and equitable scheme – not the proposed RERT program.

Energy Response remains committed to the NEM and to make constructive contributions through the consultation/submission process for the benefit of the market. However, it is fair to say that we are disappointed that few if any of our suggestions have been taken into account through the development of the RERT program. Energy Response remains the only independent DSR aggregator operating in the Australian and New Zealand Electricity markets and no effort has been made to capitalise on our learnings. We

sincerely hope that RERT is implemented with improvements that address the highlighted issues.

Yours faithfully

Michael Zammit
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