

AEMC Review of Demand-side Participation in the NEM Stage III



TOTAL ENVIRONMENT CENTRE

Demand-side Participation

- Increases reliability and security of supply
- Improves efficiency of network investment
- Facilitates Renewable Generation
- Reduces consumption of energy and use of fossil fuels

Demand-side Participation

Responds to internal and external drivers

- Climate Change
- Renewable Generation
- Increasing Electricity Prices
- Economic Efficiency

3 Points for DSP 3

- Focus
- Provision of Incentives
- External and internal drivers

Objective and deliverables of the review

Objective of the review

- This review aims to identify opportunities for consumers to make informed choices about the way they use electricity, and to provide incentives for network operators, retailers and other market participants to invest more efficiently to capture the value of flexible demand.

Approach for the review:

- We will identify market and regulatory arrangements that facilitate and promote the participation of both supply and demand side options in achieving economically efficient demand-supply balance in the national electricity market.

Deliverable for the review:

- Evidence-based report and implementation plan to the MCE on conditions required for economically efficient investment in, and use of DSP (including energy efficiency and distributed generation). The report will discuss the projected scope of DSP and its potential impact on network and generation investment.

Focus on Consumer Choice

“Power of choice – giving consumers options in the way they use electricity”

"Alignment of incentives so that the value of demand response can be seen by consumers"

"As discussed, to identify the scope of potential market and regulatory arrangements, we need to consider what it is that the consumer may wish to do first!"

“What is the methodology for identifying and assessing market and regulatory arrangements to give consumers options in the way they use electricity?”

Examples of market conditions required to give consumers options?



Technology/communications capability
(metering/communication tools, load control
Devices, storage)



Access to information
(education and participation)



Price/product options (e.g.
time of use, flat, real time
tariff options, cash back)



Access to Infrastructure
(energy efficient appliances/
building improvements)

**What other conditions
are required?**

Provision of Incentives

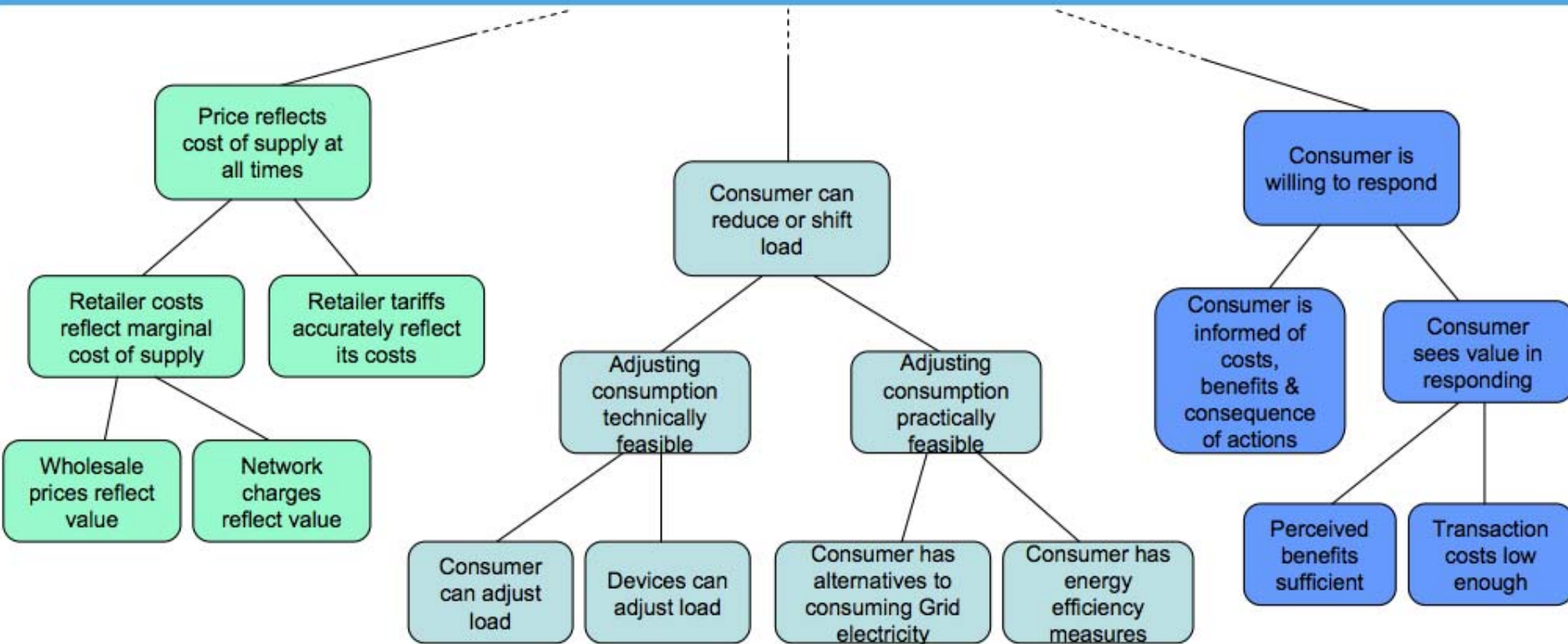
“To identify opportunities for consumers to make informed choices about the way they use electricity, and to **provide incentives for network operators, retailers and other market participants to invest efficiently to capture the value of flexible demand**”

Provision of Incentives

Perverse incentives currently exist
for network service providers:

1. NSPs cannot profit from DSP
2. DSP reduces NSP revenue

Scope - factors required for economically efficient demand-supply balance



The consumer's decision is always optimal, based on prices, information and transaction costs they face

Internal and External Drivers

- Climate Change
- Increasing Electricity Prices
- Economic Efficiency

Strategic Priorities

“Australia is putting in place policies to tackle climate change, such as the expanded RET and the Federal Government’s intended price on carbon emissions, within one of the most liberalised energy markets in the world. **This increases the importance of making sure that the measures to address climate change are well designed so that they do not adversely affect the economic efficiency of the energy sector or the ongoing development of competition in generation and retail markets.**”

Hilmer Inquiry (1993)

“Competition policy is not about the pursuit of competition per se. Rather it seeks to facilitate effective competition to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with other social objectives. These accommodations are reflected in the content and breadth of application of pro-competitive policies, as well as the sanctioning of anti-competitive arrangements on public benefit grounds.”



TOTAL ENVIRONMENT CENTRE