



Australian Energy Market Commission

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Review of Demand-Side Participation in the National Electricity Market – Statement of Approach

The Commission has initiated a Review of demand-side participation (DSP) in the National Electricity Market (NEM) with the intent of reporting the outcomes of the Review to the MCE and making recommendations on potential changes that could be made to the Rules. The objective of the Review is to identify whether there are barriers or disincentives within the Rules which inhibit efficient DSP in the NEM.

The Review is being conducted under the powers established by section 45 of the National Electricity Law (NEL) which authorise the Commission to conduct reviews into the operation and effectiveness of the National Electricity Rules (NER). The Commission is today publishing a Terms of Reference for the Review which can be found at Attachment A.

In most markets customers will make consumption decisions based on the price of a good or service where the price reflects an interaction between demand and supply at the time the good or service is purchased. However, for electricity, the majority of customers do not face retail tariffs that are reflective of the energy and network costs at the time they are used. As a result, the ability of the supply side and the demand side to interact is diminished. Where the demand side and the supply side are not able to properly interact the efficiency of the market may be compromised. For the purpose of this Review, DSP is interpreted as the ability of consumers to make decisions regarding the quantity and timing of their energy consumption which reflects their value of the supply and delivery of electricity.

To the extent that there are barriers to efficient DSP in the Rules, they are likely to inhibit efficient investment in, and efficient use of, electricity services for the long-term interests of consumers. Where such barriers can be reduced or removed, efficiency in the market will be enhanced, thereby promoting the National Electricity Objective (NEO).

The scope of the Review will be targeted towards key elements of the Rules which the Commission consider are the most relevant to DSP. The Commission will publish a Scoping Paper for consultation in early May identifying the issues that will be the focus of the review and their relevance in the context of this Review. The Commission will then undertake research and analysis and public consultation to develop findings, conclusions and recommendations on potential Rule changes for the MCE. The Commission intends to publish its report and present its recommendations to the MCE on any Rule changes that may be required by December 2008. The Commission would then developed the detailed Rule drafting in 2009 to be provided to the MCE.

On 13 November 2007 the Commission also received a Rule change proposal from the Total Environment Centre (TEC) related to DSP. The Rule proposal from TEC seeks to facilitate the increased use of demand-side resources by placing requirements and incentives on supply-side participants to investigate and then undertake demand side solutions. The Commission intends to

co-ordinate its assessment of the issues which are relevant to the Review and the Rule proposal to ensure analysis and outcomes are considered in an integrated manner.

The Commission is committed to conducting the Review in an open and transparent manner that provides all interested stakeholders with the opportunity to contribute at each stage of the Review process. The Commission has also formed a Reference Group of industry participants and relevant stakeholders to assist the Commission in considering issues related to the Review. The Commission encourages stakeholders to participate in the process in order to ensure robust outcomes for the Review.



John Tamblyn
Chairman