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Government
of South Australia

Department of
State Development

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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ERC0186

Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper - *National Electricity Amendment (Demand Response Mechanism and Ancillary Services Unbundling) Rule 2016*.

The Department of State Development, Energy Markets and Programs Division (the Division) supports the proposed rule change.

The South Australian electricity market is currently undergoing significant transformation. South Australia has significant investment in both large and small scale renewable energy capacity with a total renewable energy production of 42.2 per cent of the State's total generation in 2014-15. Furthermore, South Australia's energy consumption is declining but the peak demand continues to be relatively high and the wholesale price of gas is increasing thereby impacting on South Australia's natural gas fired generators. As a result, South Australia's conventional generators are responding by withdrawing from the market, as is the case with Alinta Energy's Northern and Playford power stations in Port Augusta, or reducing generation capacity like GDF Suez which has mothballed the capacity of its Pelican Point natural gas fired power station to 239 MW.

This transformation is changing South Australia's generation mix by shifting away from firm conventional generation to intermittent renewables. The Division believes that the introduction of a demand response mechanism in the national electricity market could assist with potential impacts of this shift. For example, heavy reliance on renewable generation can pose risks of insufficient supply resulting from the intermittent nature of such generation. A demand response mechanism could offer one method to minimise this risk. By allowing customer loads to compete with generators the market is equipped with additional and alternative resources to achieve balance. During periods when renewable generation is not providing

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sufficient supply to meet the market demand, customer load reduction under the demand response mechanism can be used to achieve a demand and supply balance in the market.

The same can be said for the benefit of unbundling ancillary services and allowing demand side competition for the purpose of this market. In its assessment of the rule change the AEMC may wish to note South Australia's recent high priced events for frequency controlled ancillary services which saw the Australian Energy Market Operator (AEMO) impose the administered price cap for a number of ongoing periods following the price of these services reaching the market cap. With this in mind, increasing competition in the provision of ancillary services through unbundling will provide the market with increased and various suppliers and therefore assist AEMO with its role of ensuring a secure and reliable electricity system.

Finally, while this submission has used South Australia's current market circumstances as a real example to demonstrate the benefits of a demand response mechanism and unbundling of ancillary services, the issues outlined could eventually apply to other jurisdictions as those jurisdictions transition to a greater proportion of renewable energy. Given the Commonwealth Government's continued Renewable Energy Target scheme, investment in renewable generation will continue across jurisdictions likely changing the generation mix as has been seen in South Australia. In addition to the benefits outlined in the COAG Energy Council's rule change proposal, a demand response mechanism and unbundling of ancillary services, entirely complements a future with a greater reliance on intermittent renewable generation by providing greater resources into the electricity market to balance the demand and supply as well as assist with the system's technical requirements.

Should you have any questions in relation to this submission, please contact Rebecca Knights, Director Energy Markets on 08 8204 1715 or Rebecca.Knights@sa.gov.au.

Yours sincerely



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