



linking demand with supply in the Australian energy market

11 August 2006

Mr John Tamblyn
Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
SYDNEY NSW 2000

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Dear John

Proposed Rule Change: Reallocations

1. Who is Energy Response?

Energy Response operates the only DSR aggregation facility which provides open access to all market participants and all electricity consumers in Australia.

The company's owners and key staff are independent of any market participant or major electricity consumers. We are owned by a small group of private investors.

Energy Response commenced commercial operation on 1 December 2004 and since then has –

- Sourced more than 500MW of DSR nationally
- Established processes, built IT systems to register, test, aggregate, profile, dispatch, measure and settle DSR in the NEM and off market
- Formed contracts for sale of aggregated DSR with 5 electricity retailers
- Dispatched aggregated DSR on 14 occasions
- Formed agreements with 4 electricity networks
- Won a NEMMCO Reserve contract - 125MW firm DSR sourced from more than 60 retail consumers with over 100 sites in Victoria and South Australia
- Won a NSW ESF grant - \$2.5million over 3 years
- Developing a growing reputation for competence in making DSR work commercially.

We believe we are arguably the most knowledgeable entity in Australia on how to make Demand Side Response (DSR) work commercially in the Australian NEM environment. This claim is based on the commercial achievements by Energy Response over the last 2 years. The business model was established to commercialise the DSR aggregation facility demonstrated in the national DSR Trial (November 2002) and independently assessed in the report "Trial of a Demand Side Response Facility for the National Electricity Market: Independent Consultant's Report" by Dr Jeff Washusen, April 2004.

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2. The NEMMCO Rule Change Proposal

Energy Response commends NEMMCO's initiative to attempt to broaden the application of the reallocation facility in the Rules so that it can better complement financial transactions in the wholesale contract market, and allow contract counterparties who are not otherwise market participants to participate in market settlements via reallocation agreements.

However, Energy Response believes NEMMCO's proposed rule change doesn't go far enough to realize the full potential of this added flexibility in the re-allocation facility, and requests the AEMC to make some minor modifications to the proposal before it is finalized and implemented. The changes being requested and the rationale for them are discussed below.

3 Energy Response's Proposed Modifications

Over the past 6 months or so, there has been considerable dialogue between Energy Response and NEMMCO as we collectively work through the many practical issues that need resolution to allow demand side response of various forms to operate effectively in the NEM within the framework of the current National Electricity Rules. NEMMCO management and staff have been extremely helpful during this process, real progress has been made on a range of issues, and we are close to finalizing the first practical installation involving separate metering of embedded standby generation plant.

However, there are limits as to what is practicable to achieve within the constraints of the current National Electricity Rules. The current NEMMCO rule change proposal is symptomatic of the National Electricity Rules in general – they have been drafted around the responsibilities and needs of traditional service providers; i.e. large remote generators, suppliers of traditional network services, retailers, and traditional providers of ancillary services.

While we are still considering the full range of possible amendments to the Rules for them to accommodate all forms of, and the various economic drivers for, demand side response, it is clear that NEMMCO's proposed rule change covering reallocations currently under consideration by the AEMC provides an opportunity to introduce additional flexibility to support the practical implementation of demand side response.

Additional flexibility in the reallocations facility has potential application at the individual retail customer level where separate commercial arrangements are entered into by the retail customer for:

- Purchase of a retail energy supply; and
- Sale of the retail customer's firm or non-firm demand side response capability to a party other than the retail energy supplier.

There are countless ways in which the financial arrangements for the commercial separation of retail energy purchasing and demand side response could be structured, some involving a single master meter on the installation while the others may involve sub-metering arrangements as well. In any event, a more flexible reallocation facility would not only be a simpler option to administer than an off-market settlements arrangement but it also virtually eliminates the collection risk which would otherwise be involved in the transaction.

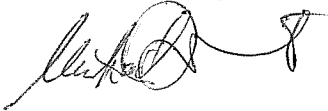
The proposed modifications are in two parts:

- 1 Broaden the name of the participant category from *Reallocator* to *Settlement Participant* or some other equivalent so that suitably describes any potential user of the facility as an integral part of either wholesale or retail energy transactions; and
- 2 Broaden its description to allow it to include a participant who is neither a Market Customer nor a Registered Generator in any form, but who nevertheless may be the responsible party in Settlements for a small, separately metered, unregistered generator that would operate only on rare occasions to provide demand side response at critical times in the market.

The embedded generators in question do not need to be registered for security reasons and, in our view, they should not need to be registered as Market Generators either. As far as the market is concerned, they are essentially intermittent negative load, in much the same way as supplies from the distribution network for generator auxiliaries and mine loads are treated as negative generation.

If you or any of your staff would like to discuss this proposal further with us, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Zammit', with a stylized flourish at the end.

Michael Zammit
Managing Director

Att.

2.5B Settlements Participant

NB This new Rule provides for the new category of Registered Participant whose trading in the NEM is limited to:

1. providing energy injections into an embedded network in the market from a source other than a registered generator; and/or
2. reallocations.

(a) A Settlements Participant is a person so registered with NEMMCO in order to participate in the settlements process under Clause 3.15.

(b) A person who is registered with NEMMCO as a Settlements Participant is:

(1) a *Registered Participant* for the purposes of the *National Electricity Law* and clauses 2.5B(3), 2.9, 2.10, 2.11, 3.3, 3.13.5A, 3.15, 3.19, 8.2 and 8.9;

(2) treated as a *Market Participant* for the purposes of clauses 3.3 and clause 3.15 provided that a person who is registered with NEMMCO as a Settlements Participant is not regarded as a *Market Participant* for the purposes of clause 3.15.1(b); and

(3) entitled to receive any information NEMMCO is required to *publish* or otherwise make available to *Registered Participants* (other than *confidential information* in respect of one or more other *Registered Participants*), but is not otherwise a *Registered Participant* or a *Market Participant* for the purposes of these *Rules* unless they are also registered in another category of *Registered Participant* or *Market Participant*.

Other Required Amendments

3.15.3(a)	Connection point and virtual transmission node responsibility	Need to add an additional provision that allows a Settlements Participant to be financially responsible for energy injections that are from an exempt generation source
3.19	Market Management Systems Access Procedures	May need to be modified to ensure a Settlements Participants can gain limited direct access to relevant market data for their market and reallocation transactions while still being exempted from Market Participant Fees.