

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235



Government  
of South Australia  
Department of  
State Development

Dear Mr Pierce,

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Determination - *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 draft rule that will allow a new type of market participant, a market ancillary service provider, to provide frequency control ancillary services to the market.

However, the Division is disappointed with the AEMC's draft decision not to make a rule change that would introduce a demand response mechanism. As outlined in our previous submission to the AEMC's consultation paper, a demand response mechanism offers another means to achieve a balance between demand and supply within the national electricity market. This is particularly important as Australia continues its transition to a low carbon economy and places greater reliance on intermittent renewable energy. As previously stated, in the event that renewable generation is not providing sufficient supply, a demand response mechanism will facilitate a reduction in market demand to achieve balance in the market.

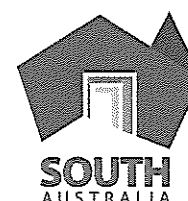
While the Division notes the AEMC's assessment and conclusions on the demand response mechanism, we are most concerned with the AEMC's finding that demand response can and already is happening in the market. The AEMC came to this conclusion after surveying retailers but without seeking the views of customers. Therefore, the AEMC's assessment does not encompass electricity customers' perspective and we question whether the AEMC would reach the same conclusion, not to include a demand response mechanism, had it found that customers could not easily access demand response services.

The division therefore considers the AEMC's analysis to be flawed to the extent that it does not encompass the perspective of electricity customers. We consider that it is necessary to consult with customers and seek information not only about whether demand response is offered but also whether it is activated.

The Division consulted with SA Water and queried their experience with demand response offerings in the current market. SA Water advised that they have previously entered into an energy contract that included a curtailment option. However, following the expiry of that contract some 5 years ago they were not able to source another contract that provided SA Water with value from a demand response mechanism,

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despite SA Water's ability to curtail load. Furthermore, they noted that under their current arrangements, unless there is a benefit to the retailer from reducing demand at a given time, the retailer won't activate customer curtailment, even if it would benefit the customer. Therefore, while the current environment may allow retailers to use demand response to reduce a retailer's financial risk, it does not promote demand response at times that would benefit the customer and has the potential for demand response to be underutilised. The retailer's objectives are not always aligned with maximising demand response at times of high market price and volatility.


Accordingly, at a high level, SA Water recognised the benefits of the proposed rule change to introduce a demand response mechanism through a demand response aggregator. Importantly, SA Water noted that such a rule change may encourage competition in the provision of demand management and therefore offer more options to customers in managing their electricity expenditure.

This example points to the importance of the AEMC undertaking a survey of customer experiences under the current arrangements. Furthermore, the Division notes the AEMC's findings that retailers have at least 235MW of demand response under contract and demand side management providers are managing at least 310MW of demand response. We would argue that, for a national market which had a peak demand of over 32,000 megawatts in 2015-2016<sup>1</sup>, this is very small and suggests that demand response is not as accessible to customers as suggested.

In light of our concerns and the Division's view that a demand response mechanism offers an additional and effective tool to assist the energy market in Australia's transition to a low carbon economy, the Division asks that the AEMC re-assess its draft decision and undertake further work to determine the views of electricity customers. The AEMC needs to convince itself, through targeted customer consultation, that demand response can be readily accessed by electricity consumers and equally as importantly, that any demand response offerings are not only activated to benefit retailers but also at times when customers would benefit. Without this further work, the Division is not convinced that the AEMC would reach the same draft position.

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](mailto:Rebecca.Knights@sa.gov.au).

Yours sincerely



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**EXECUTIVE DIRECTOR,**  
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<sup>1</sup> AER website: <https://www.aer.gov.au/wholesale-markets/wholesale-statistics/generation-capacity-and-peak-demand>