

10/12/2015

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235

Lodged online via: www.aemc.gov.au

Dear Mr Pierce

National Electricity Amendment (Demand Response Mechanism and Ancillary Services Unbundling) Rule 2016

TransGrid welcomes the opportunity to respond to the AEMC's Consultation Paper for this rule change request.

TransGrid owns and operates the high voltage electricity transmission network connecting generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, providing an electricity system that makes interstate energy trading possible.

TransGrid supports the intent of the Demand Response Mechanism (DRM) to encourage demand side participation in the wholesale market. TransGrid considers that the DRM has the potential to help grow the market for demand management more broadly in the National Electricity Market (NEM) which is still relatively immature. A more mature and integrated market for demand management is likely to encourage further evolution and innovation in the supply of electricity.

TransGrid wishes to raise a number of issues on the DRM component of the rule change request for further consideration by the AEMC.

Potential interactions with network support programs

While the DRM is expected to help encourage greater participation in the wholesale spot market by customers, there are potential interactions with participation in network businesses' network support programs which should be considered by the AEMC.

It would be envisaged that participation in the DRM would be driven by times of expected high wholesale spot prices, where successful participation ultimately leads to a reduction in the average wholesale market component of a customer's electricity bill. By contrast, network support programs are driven by the presence of network constraints and ultimately lead to a reduction in the network component of a customer's electricity bill through the deferral or avoidance of network augmentation.

Demand management measures (including the DRM and network support programs), if effectively implemented in a co-ordinated manner, should lead to both the deferral of network

augmentation as well as reductions in average wholesale spot prices, which would be in the long-term interest of consumers.

While the AEMC notes in its Consultation Paper that the proposed DRM would not prevent participation in both, the demand management resource is both the same and finite, and may have a defined envelope in respect to the number of times and duration of which it can be called. In addition, it will take some time for a deep pool of demand management to emerge and this may result in demand management providers being selective with their offerings.

TransGrid considers that it is possible that technical, commercial and market depth factors may result in end-users effectively having to choose one or the other. If this were to be the case, there is a potential that the total system benefits possible from demand response may not be realised. The DRM, if implemented, should be developed in such a way that it allows the value of demand response to be effectively maximised.

TransGrid would welcome further examination and discussion with the AEMC as it progresses this rule change process noting that there are also other schemes designed to encourage demand response.

Eligibility to become a Demand Response Aggregator

There are potential efficiencies of scale which can be captured from the integration of the Demand Response Aggregator (DRA) role with network planning and operations. Given the relative infancy of the demand management market, unnecessarily restricting the eligibility of the DRA role may hinder its development and limit the success of the DRM implementation.

Therefore, TransGrid reiterates the Energy Network Association's position that an appropriately ring-fenced network businesses should not be precluded from becoming a DRA.

Implications to network planning

The provision of greater levels of demand response may have implications for the planning and operation of transmission networks. Transmission network service providers such as TransGrid are required to plan and maintain their networks to reliability standards set by the relevant jurisdictional governments. In some instances, demand response may not be reliable enough to meet these standards given that the end-user will often retain the ability to opt-out of providing the resource when called. This will need to be taken into account in the planning and operating decisions of a transmission network.

In addition to implications to the overall network planning processes, there are also potential interactions with specific projects under the Regulatory Investment Test for Transmission which merit further consideration.

TransGrid would welcome further examination and discussion of these potential interactions as the AEMC progresses this rule change process.

Future development and expansion of the DRM

TransGrid notes that the Council's rule change request suggests that the threshold for participating in the DRM could be lowered in the future to include smaller customers, pending the successful implementation of the currently proposed DRM. TransGrid considers that, if implemented, it would be important to monitor the development of the DRM and there should be consideration as to the criteria and measurement of 'success' of any such implementation.

Further engagement with the AEMC and other stakeholders

TransGrid looks forward to engaging further with the AEMC on this rule change request. If you would like to discuss any matter raised in this submission, please contact Caroline Taylor, Regulatory Affairs Manager, on (02) 9284 3715.

Yours faithfully



Greg Garvin

Executive General Manager/ People, Strategy and Stakeholders