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16 December 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Sir/Madam,

Re: Consultation Paper - Demand Response Mechanism and Ancillary Services Unbundling

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) on the Consulation Paper released on the Demand Response Mechanism and Ancillary Services Unbundling (the Consultation Paper).

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland to approximately 1 million customers.

This submission will address matters in the Consultation Paper relating to the Demand Response Mechanism. The Snowy Hydro submission will articulate positions related to the Ancillary Services Unbundling on our behalf.

Red and Lumo consider that there is already voluntary demand response in the market, through the provision of contracts to consumers who want to benefit from a demand response arrangement. It is our expectation that these consumers will shop around for a retailer who is willing to offer a service and contract that meets their requirements.

It is our firm view that the Commission should decide not to proceed with this rule change as this proposed change does not meet the National Electricity Objective. Red and Lumo believe that the cost impost on participants that will ultimately be borne by consumers, is not outweighed by the apparent value that the proposal suggests, therefore the change is not in the long term interests of consumers.

Assessment Framework

The assessment framework proposed by the Commission should focus on whether this rule change will ultimately be in the long term interests of all consumers. Costs borne by participants will be ultimately passed onto consumers, therefore the assessment can not benefit one class of consumers over another. As such, the Commission should focus on the overall value provided to all consumers.

The Consultation Paper assesses barriers to demand side participation in the context of this rule change. It is difficult to assess the benefits of this rule change from the benefits associated with the Distribution Network Pricing Arrangements that will commence on 1

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January 2017. The Commission considers that a barrier exists where "consumers may be using electricity at times when the value of its use is less than the cost of its supply".[1]

It is our view that as consumers become more exposed to the true cost reflective network pricing, they may choose to engage in demand side participation through responding to the network price signals, seeking a contract that encompasses demand response and/or investing in new technologies that will counteract any wholesale exposure that the customer wishes to mitigate.

Potential barriers to demand side participation

The Consultation Paper raises a number of matters as potential barriers relating to the retail market. The Commission states that retailers may be reluctant in investing time and effort to educate these customers and negotiate these contracts. However, retailers who are looking to manage their wholesale exposure by demand response may be the most likely to invest in educating consumers and offering retail products to those consumers. A competitive retail market will provide a suitable outcome to meet consumer demands. Therefore, where a customer demands a demand response product, they will find a retailer who will offer them a product with agreeable terms and conditions. Consequently retailers that choose not to invest in providing products and services to those consumers, will also lose the potential revenue from those consumers. We consider that these retail products provide voluntary demand response, and the mechanism proposed by the rule change will not deliver the value to be in the long term interests of consumers.

The Commission have not considered the introduction of the Demand Response Mechanism as a potential barrier to entry. We consider that implementing the Demand Response Mechanism will add unnecessary complexity in the market and will increase the barriers for new entrants. Not only will new entrants have to manage the complexity of the wholesale market, they will need to consider how the Demand Response Mechanism will impact their wholesale market exposure and its relationship to their customers retail product and pricing.

Red and Lumo refer the Commission to the ERAA report on the Demand Response Mechanism as published by Seed Advisory[2]. The cost implications for retailers to implement and administer the Demand Response Mechanism were estimated to be $112 million over a 10 year period without an equivalent benefit to retail customers. This cost will be ultimately borne by consumers, therefore there must be more than $115 million of value provided to all consumers, not just those who participate, which has yet to be clearly identified. As such, we contend that the Commission should not proceed with this rule change proposal, as it is not in the long term interests of consumers.

Implementation Issues and voluntary approach

The Consultation Paper discusses an opt-in approach to the Demand Response Mechanism, whereby retailers who wish to offer this to their customers can implement the changes and those who do not wish to offer this do not implement the required changes. This approach is consistent with current practice, whereby some retailers offer a demand management contract to customers and other retailers do not. This is undertaken in the existing market, and does not require a rule change with significant cost implications to provide demand response to customers.

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[1] AEMC 2016, Demand Response Mechanism and Ancillary Services Unbundling, Consultation Paper, 5 November 2015, pg. 15

[2] Seed Advisory, The case for a Demand Response Mechanism in the NEM: an assessment, 16 December 2013, for the Energy Retailers Association of Australia, the Private Generators Group and the National Generators Forum.

Further, should the Commission decide that implementing this rule change is warranted, if all retailers choose not to participate in the mechanism, it is unclear who will have the obligation to supply those customers. Under the existing arrangements, the Financially Responsible Market Participant (FRMP), or in the case of a new connection the local retailer has the obligation to supply. It is a poor customer experience for the consumers who choose that they wish to appoint a Demand Response Aggregator (DRA) and the retailer advises that they will need to find a new retailer that supports the DRA mechanism. It is also unclear where the customer chooses that they do not want to be supplied by another retailer the FRMP must continue to supply. Therefore, all retailers will need to build the Demand Response Mechanism into their systems.

The Consultation Paper states that an option proposed by the rule change proponent is to allow manual billing for these customers. In the current rules, there is no rule that mandates that retailers must automate billing. However, there are significant costs in implementing the Demand Response Mechanism that does not include amending the billing systems. This includes, but is not limited to, amending systems to accept the new roles in the market, amending systems to accept the new data and baseline information, amendments to forecasting and wholesale systems to ensure that bidding the load of our customers is correct.

Conclusion

Whilst the Demand Response Mechanism may have been a good idea when the Commission conducted the Power of Choice review, unfortunately the wholesale and retail arrangements have evolved to render this solution ineffective. With the advent of new technologies, the implementation of the Distribution Network Pricing Arrangements and the competition in metering rule change, the rule change is no longer required.

Voluntary demand response already exists in the market, with customers who demand these products being able to find a retailer who is willing to offer the product on conditions that suit their individual arrangements. This existing arrangement meets the requirements of those consumers who benefit from demand response products without imposing costs on all consumers who do not participate in this arrangement. Implementing the rule change, in our view, does not meet the NEO as it is not in the long term interests of all consumers.

Red and Lumo thank the Commission for the opportunity to respond to this Consultation Paper. Should you have any further enquiries regarding this submission, please call Stefanie Macri, Regulatory Manager on 03 9976 5604.

Yours sincerely

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