

23 May 2018

Suzanne Falvi
Executive General Manager
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



Dear Ms Falvi,

Reliability Frameworks Review – Directions Paper

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon disadvantaged and marginalised people. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AEMC's Directions Paper for its Reliability Frameworks Review (RFR).

PIAC strongly supports the introduction of a mechanism for wholesale demand response independent of energy purchasing arrangements. In particular, PIAC supports the AEMC's Option 1.

Following the publication of the AEMC's final report on the RFR, PIAC and the Total Environment Centre, along with one other co-proponent, plan to lodge a related rule change request to the AEMC.

The importance of wholesale demand response

In PIAC's view, any part of the energy system that does not fully employ demand response (DR) where it is cost effective to do so, cannot be considered to be operating efficiently. This applies equally to distribution, transmission, wholesale, and retail.

While demand response is increasingly being used in the other stages of the supply chain, PIAC considers its use in the wholesale market is considerably lacking. While retailers are able to engage in demand response if they choose to under the current regulatory arrangements, the NEM remains a generation-only wholesale market. When compared to energy markets with effective mechanisms for demand response,¹ the amount of DR in the NEM is trivial. The ability for demand reduction to be able to bid into the wholesale market, independently of energy purchasing arrangements, is essential for it to operate efficiently and in the long-term interest of all consumers.

PIAC strongly supports Option 1

PIAC's understanding is that Option 1 will transfer the value of wholesale demand response to a third party, rather than the retailer, which is able to submit bids into the wholesale market. It would be compulsory for retailers to permit their customers to participate in this process. PIAC supports this as it separates retail energy supply from the provision of

¹ For example, over 10% of the WA energy market's capacity is sourced from demand response.

wholesale demand response. This reduces the barriers to entry for new parties looking to provide demand response services but unwilling to take on the substantial regulatory obligations of an energy retailer. Further, by bidding into the wholesale market, it will play a role in setting the dispatch price which will help drive more efficient wholesale prices.

PIAC considers that Option 1 could be enhanced by also allowing small customers to participate via an aggregator. It could also be enhanced with the development of an appropriate framework for scheduling wholesale demand response which reflects the performance capability of demand response.

There would also be great benefit in aligning the implementation of the wholesale demand response mechanism, and the relatively minor changes necessary to any IT or billing systems, with the 5-minute settlement rule change in 2021.

Options 2 and 3 are unsatisfactory

PIAC considers Option 1 is preferable to both Options 2 and 3.

Option 2 is unsuitable as a new mechanism for wholesale demand response for a number of reasons, including that it is largely possible under the current regulatory framework. The demand response aggregator would essentially need to become a retailer itself – not only placing material regulatory and prudential burdens on any new entrants but also defeating the purpose of separating retail energy supply from demand response.

Option 3, creating a retailer incentive fund or scheme, suggests there are currently insufficient incentives for demand response or it is uneconomical – this is simply not true.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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