AEMC Strategic Priorities for Energy Market Development

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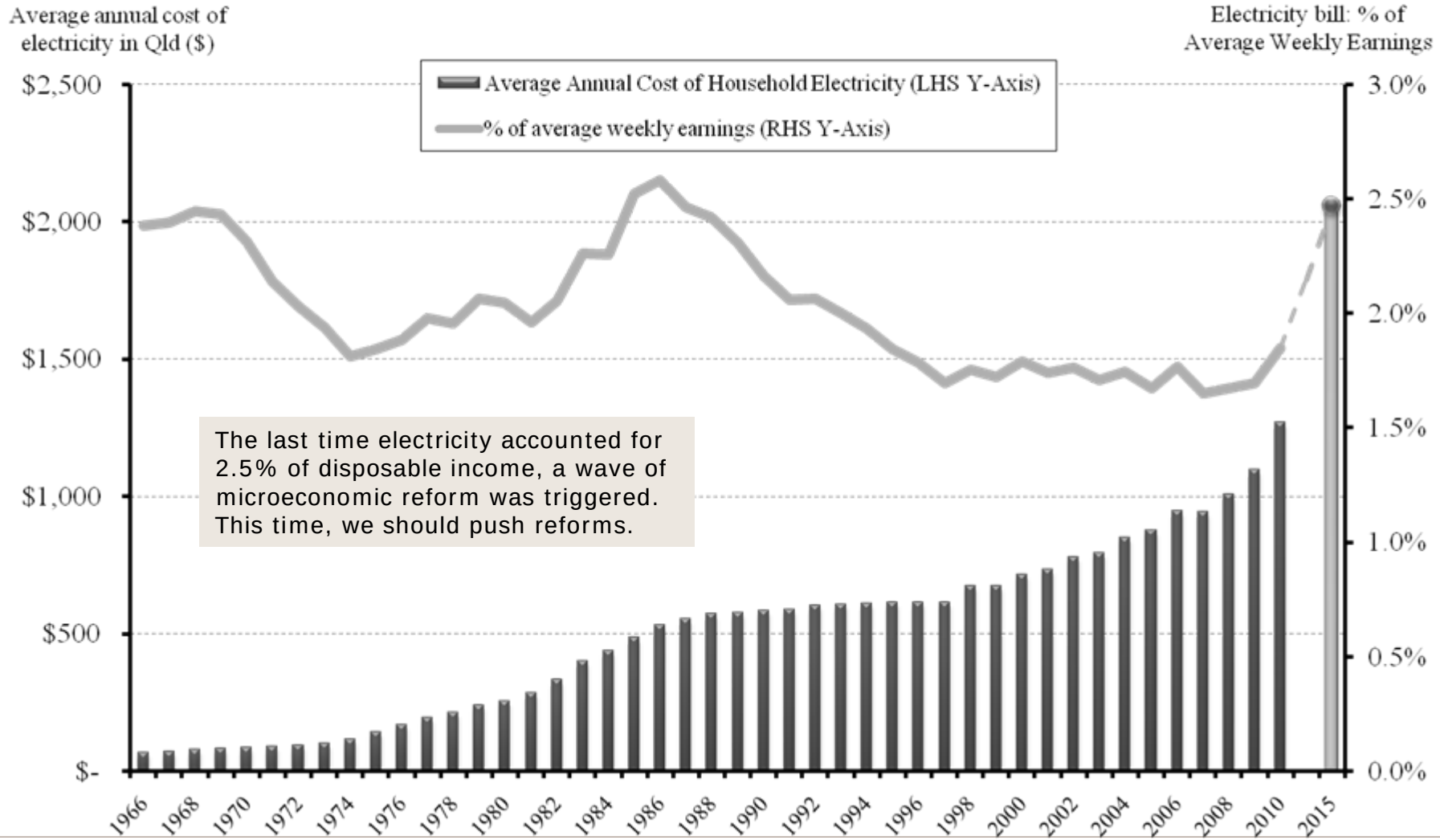
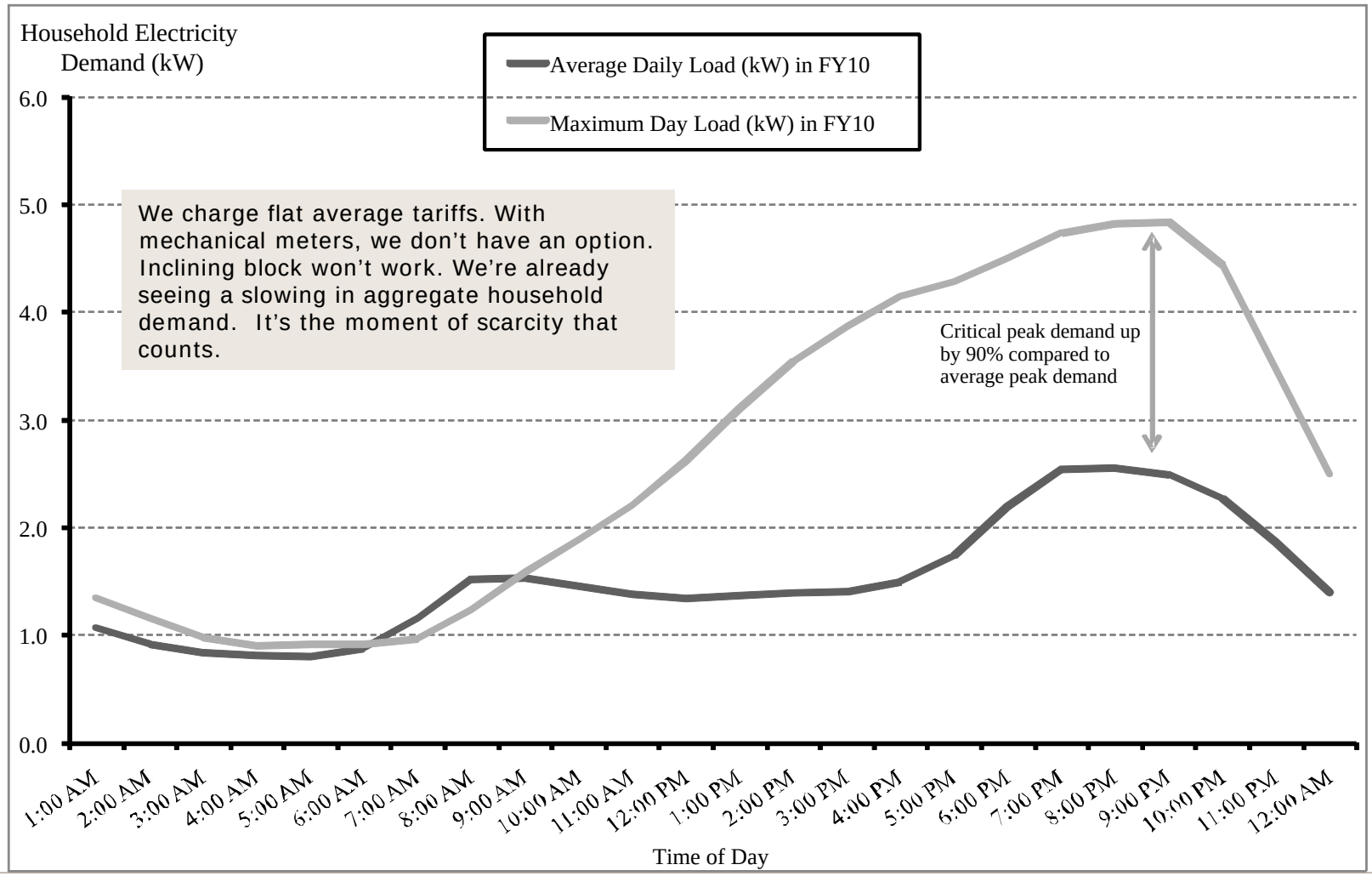
AGL External

More reform will be required



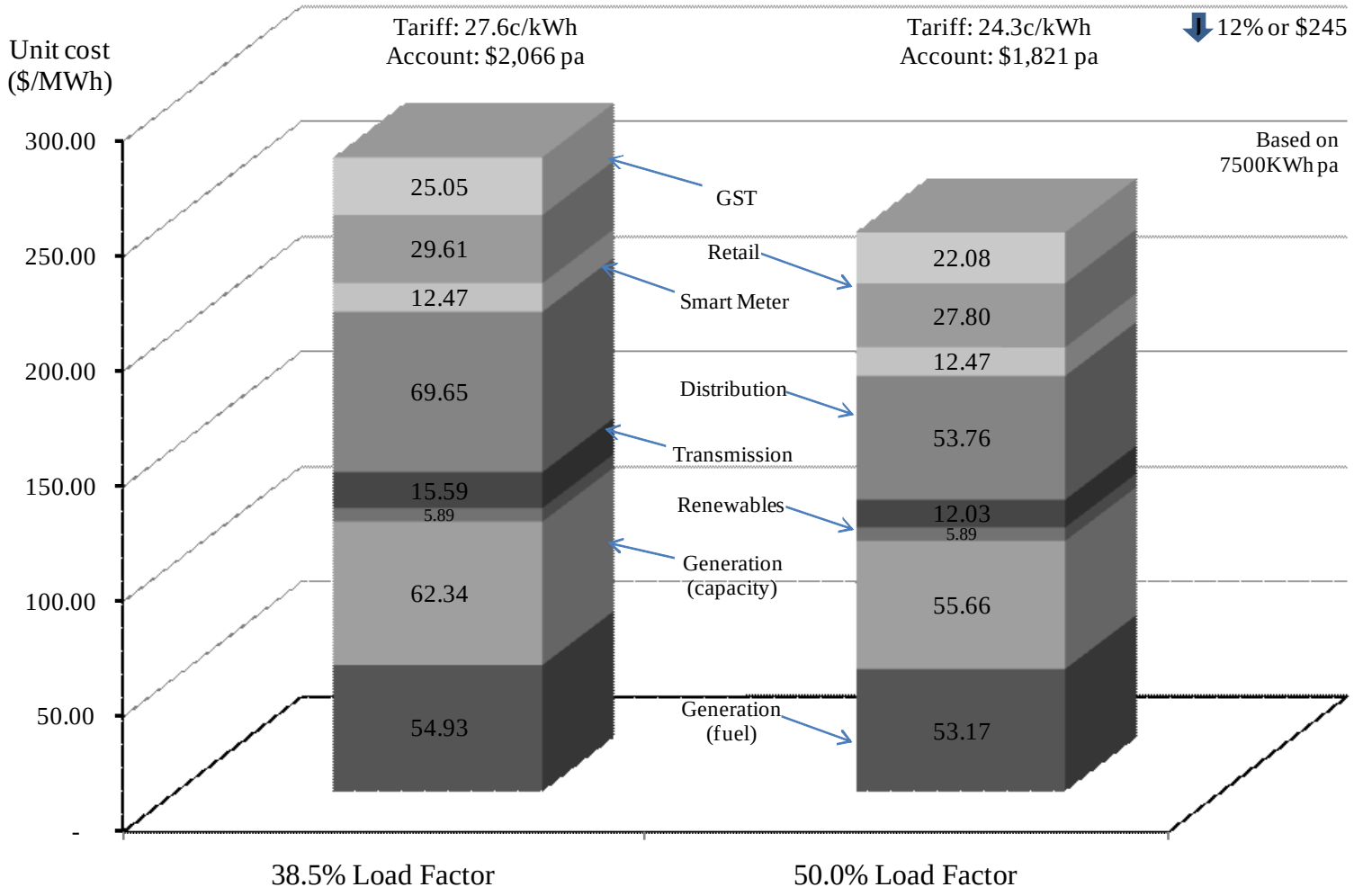
The last time electricity accounted for 2.5% of disposable income, a wave of microeconomic reform was triggered. This time, we should push reforms.

Peak demand growth is problematic



Interval meter data from 3000 households in Sydney for FY10

And it will continue to flame cost increases



Our Boomerang Paradox scenario flagged the possibility of a doubling of unit prices between 2008 and 2015.

The media is focused on cost of living. We believe this thematic will run for years, not weeks or months.

A smart grid, and what it can do for power system load factor *is a genuinely good story* for our industry, and our customers.

Lots of words here, but important for ESI...

"In just about any market-driven economy, prices play a central role in allocating scarce resources such as capital, labour, fuel, and other raw materials. Suppose the [flat tariff principles currently used in the electricity industry] were accepted by policymakers in the halls of government, who then proceed to apply them to the entire U.S. economy... Parking meters in inner cities would charge the same hourly rate all day long, every day of the year, instead of the current system where meters commonly do not charge after work hours or on weekends. The consequence would be that motorists would have a tough time finding parking during working hours... Airline prices would be the same regardless of when you booked your flight or when you flew. Business travellers needing to book a seat at the last minute would be disappointed and vacationers looking for special deals would find none... The same uniformity would be applied to hotel rates and car rentals. It would not matter whether you checked in on a weekday or a weekend. Grocery shoppers would expect to pay the same price for produce regardless of whether it is in-season or out-of-season. When filling up for gas at the pump, motorists would pay the same price year round. And so on. Would prices for various goods and services be higher or lower, on average, in this alternative reality we have just sketched? The alternative reality would be characterized by excess capacity and poor load factor, because prices would no longer be used to spread out periods of intense demand. As a result, the alternative reality would be a world of higher prices."

The opportunity for Demand Response is large

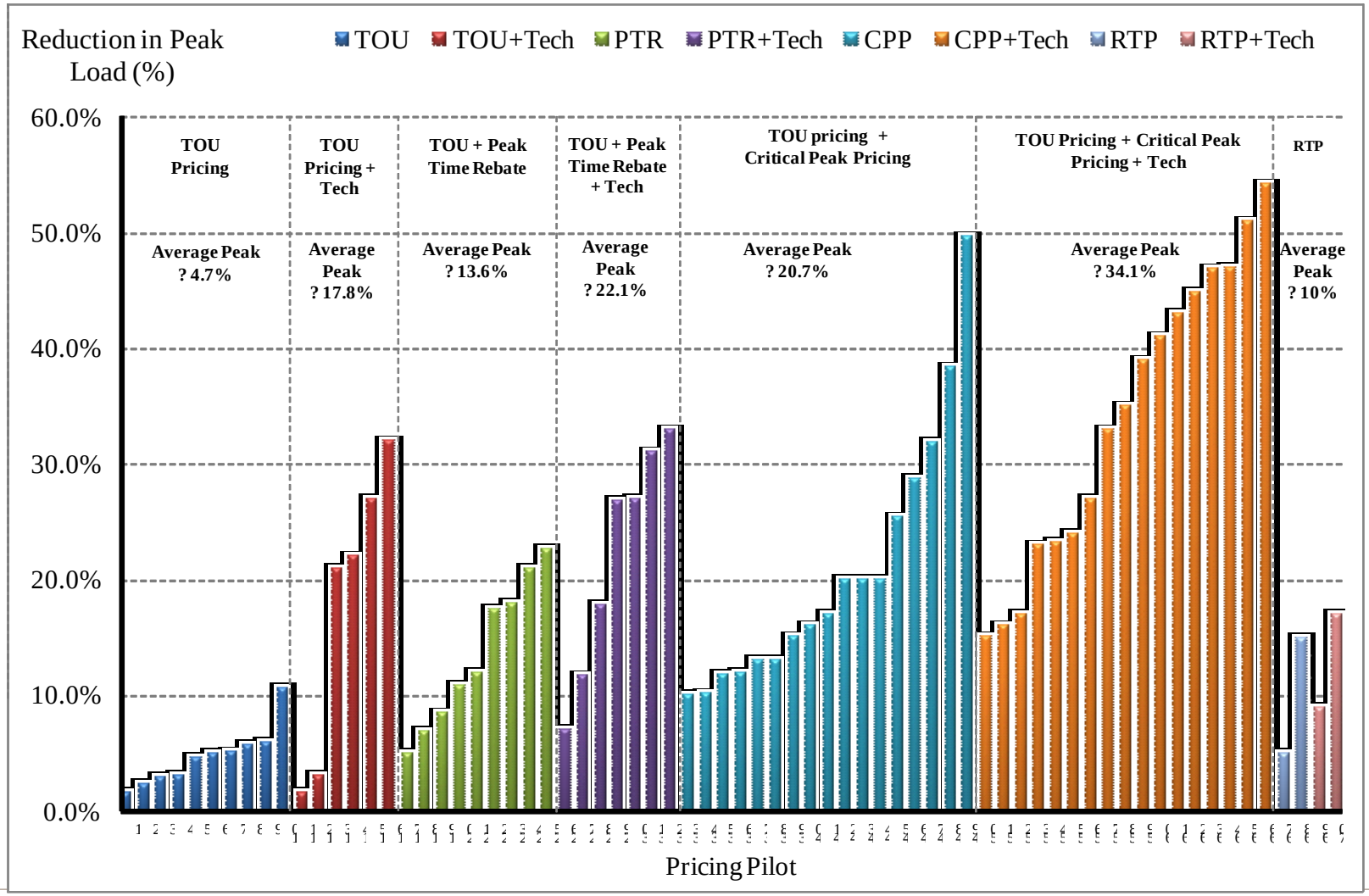
Peak

High Usage 10+ kWh per day	**High Peak Low Off-Peak 3%**	**High Peak Medium Off-Peak 18%**	**High Peak High Off-Peak 44%**
Medium Usage 5-9 kWh per day	**Medium Peak Low Off-Peak 7%**	**Medium Peak Medium Off-Peak 10%**	**Medium Peak High Off-Peak 1%**
Low Usage 0-4 kWh per day	**Low Peak Low Off-Peak 16%**	**Low Peak Medium Off-Peak 1%**	**Low Peak High Off-Peak 0.1%**
	Low Usage 0-4 kWh per day	Medium Usage 5-9 kWh per day	High Usage 10+ kWh per day

Off-Peak

Interval meter data from 1000 households in Melbourne for FY10

And customers *will* respond



But *there will* be losers