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Dr John Tamblyn, Chairman,  
Mr John A Ryan, Commissioner,  
Mr Ian C Woodward, Commissioner,  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Submission by e-mail to: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn and Messrs Ryan and Woodward,

**Re: EPR002 Stage 2 Review of Demand-Side Participation**

The NGF writes in response to the draft report entitled *Demand-Side Participation in the National Electricity Market* (the report). The NGF appreciates this opportunity to provide feedback on this matter and support the work of the Australian Energy Market Commission in the important area of demand-side participation (DSP).

The NGF has found the findings in the report to be economically sound with the central theme that there are few barriers to entry for demand side participation (DSP). The NGF provides comment on each of relevant issues raised in the report. However, the NGF's overall position can be summarised as:

- there are few barriers in the National Electricity Market (NEM) that actively prevent DSP;
- customers value their consumption of electricity more than the revenue obtained from a DSP contract and the avoided cost of electricity consumption. This is the key factor in the level of DSP in the NEM;
- competitive neutrality must be maintained or achieved between supply-side and DSP options so as to not artificially bias DSP options over other supply options in the NEM;
- information obligations for DSP should be comparable to those of generators and to do so increases overall market transparency and hence market efficiency; and

- amending the National Electricity Rules (the Rules) to allow for compensation of non-scheduled load should be further investigated as it has the potential to encourage necessary DSP, reduce perceptions of bias, and reduce the need for more interventionist mechanisms.

### **Economic Regulation of Networks**

The NGF supports the finding that network businesses regulated under a price cap have private incentives for purchasing DSP that are consistent with socially efficient levels of DSP.

The NGF believes that there is not an economic case to support additional rewards for network business to utilise DSP opportunities. The current incentives balance the tension between whether to contract for DSP or build additional network assets. If there is a view that it is inherently riskier to fund DSP initiatives over capital initiatives then it is important that any proposed remedy to remove this bias does not swing the pendulum the other way.

We agree that a network owner has an incentive to innovate where it expects to earn a profit. Therefore, we are not comfortable with using network businesses as a vehicle to pursue pilot innovation projects at customers' expense. There are significant questions around the ability of small institutions which are government owned or regulated monopolies to undertake research and development on a meaningful scale.

It can be argued the issue does not relate to payback periods. The existence of five years of potential profit should of itself be long enough to sustain a large number of innovations (as would be the case for a private business) even if we assume the Australian Energy Regulator's downward funding adjustment would fully devalue the savings brought on by an innovation.

The NGF also questions the extent to which the network businesses are structured to undertake such activities and therefore additional funding may prove fruitless. These revenue streams may prove wasteful and may be allocated to operational improvements that arise in the ongoing course of business as opposed to innovative projects. Regulatory oversight would then be required to ensure that this does not occur. This would increase overall regulatory and administrative costs.

### **Network Planning Standards**

The NGF supports initiatives to standardise network planning standards across all Jurisdictions as this would remove any inconsistencies across different distribution networks and reduce overall costs for businesses operating through out the NEM.

The NGF agrees that probabilistic planning standards would more adequately assess the level of reliable DSP given the different levels of "firmness" of different sources of DSP.

The NGF believes DSPs should have comparable information obligations to those of generators. Price sensitive loads greater than 30MW should provide comparable information to those of generators.

The aggregation of loads (ie. hot water ripple control) should also be obligated to provide reliable information to the market. It is the NGF's strong view that unexpected DSP responses cause significant inefficiencies in dispatch. These sporadic responses also reduce contract

market efficiencies such as short and near term outage cover. Examples of the inefficient outcomes as stated above include:

- The unnecessary dispatch of fast start units to hedge the risk of high spot prices, only to watch the price fall due to an un-forecast and unexpected demand side response; and
- Incorrect pricing of short term contracts (ie. day ahead outage cover) caused by high pre-dispatch price forecasts. However, the actual pricing outcome is lower due to unexpected demand side response that was not factored into the pre-dispatch forecasts.

These are tangible examples of inefficiencies from the lack of information disclosure that applies to DSP. The NGF believes that all DSPs would also benefit from better and more reliable information on the overall availability of DSP in the market. That is, an individual DSPs response to the market is equally reliant on the accuracy of forecast pre-dispatch prices and pre-dispatch availability.

### **Network Connection**

We agree that the issues related to technical standards should be progressed with the Reliability Panel as part of the Technical Standards Review.

The NGF notes the issues concerning arrangements for connection and the arrangement for avoided transmission use of system charges and agrees that “from society’s point of view it remains efficient to provide a signal to embedded generators to locate in areas that reduce overall costs of supplying electricity in the long-term.”

As an aside we suggest that the issue of negotiation imbalances goes beyond the impacts on small embedded generators.

### **Wholesale Markets and Financial Contracting**

The NGF agrees with the Report finding that the costs associated with direct market participation for DSPs are reasonable and proportionate.

The NGF notes that this does not exclude smaller DSP which may find the cost prohibitive for direct participation. These DSPs may indirectly participate through the use of an Aggregator or through a Retailer.

### **Reliability**

As a principle the NGF advocates minimum market interventions in the NEM as this provides the purest and most efficient pricing signals from which Market Participants can make short term and long term investment decisions.

The report has raised a potential gap in the Rules where there is the inability to compensate 'unscheduled' loads which are capable of being directed to meet a reserve shortfall. The NGF favours modifying the existing directions mechanism to allow NEMMCO to compensate these loads if they are directed. We believe this to be less distortionary than modifications to the Reliability and Emergency Reserve Trader (RERT).

The NGF appreciates the opportunity to provide input to the Draft Report. Please contact Kevin Ly on (02) 9278 1862 should you have any enquiries in relation to this submission.



Alex Cruickshank  
Chair, Market Working Group