Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney 2000

Date: 26 April 2012

Power of Choice – Stage 3 DSP Review submission

Dear madam/sir,

I would like to submit as a consumer. Please note that this information is intended for the Australian Energy Market Commission for this review only and is not meant for copying, distribution or re-use for other purpose or by other party.

Response to Engagement and information

1. What is the ultimate goal that DSP aims to achieve
2. Does the incentive for an individual lead to a common good outcome
3. Will it be mandatory – is it a matter of choice or can there be no choice

1. What is the ultimate goal that DSP aims to achieve
My understanding from the paper is that the ultimate goal is improved efficiency in capital investment by reducing (if not eliminating) the need of peak generation.

So what does it mean to general consumers, if investment becomes effective across the supply sides? What exactly does it mean when demand profile is flatter?

If the answer is lower electricity price, as a consumer, I can relate, I will come to the party.

To an end user, it is not obvious that the benefit from improved investment efficiency will necessarily be passed on as a general benefit, because ----

the improved capital efficiency can simply become increased margin for the investors, rather than a reduction in electricity prices.

I learnt from a recent report "State of the energy market 2011" published by the Australian Energy Regulator, that there is a development in increasing separation between generation spot prices and the underlying cost of generation in some regions. I would anticipate that the electricity prices **will not be marginal cost based** once the NSW State Government privatises the generation part of the sector.

Hence, I would like to submit a point that one key 'information' in successful consumer engagement is the clarity and confidence that the electricity price will come down following the improved efficiency in investment.

2. Does the incentive for an individual lead to common good outcome
I understand from the paper that there may be financial incentive for consumer to participate in DSP. In general it can be expected individuals will participate.

So the scenario becomes the following:

Those who participate in DSP get paid an amount to enable suppliers make better profit margin.

Money invested in peak generation = money to DSP(s) + margin for suppliers + DSP implementation cost (reflected as operating costs on the suppliers' balance sheet)

I am not convinced that the re-distribution of monies makes sense. The electricity price will still stay high with capital cost reduced but operating costs increase.

The whole notion of DSP makes sense if and only if, the electricity reliability is maintained while price will come down as a result of **BOTH** effective capital investment **and** effective operating cost of supply.

3. Will it be mandatory – is it a choice or no choice

I ask myself a question, at what level of DSP can effectively eliminate peak generation infrastructure (including transmission, distribution grids and the generators).

Would DSP not yield positive cost benefit, unless the level of DSP reaches a certain "minimum effective level", at the time it is needed?

Given that, I deduce that to achieve cost effective demand profile reduction, it might need to be mandatory, rather than a 'price bidding' process.

When there is no water, anyone can understand the dam level is reducing.

When the dam is reducing, water restriction comes in. The general public can understand the value to save – despite there is no $ incentive in all these.

The restriction on certain type of water usage between 10:00am to 4p.m. is a demand side management to avoid using water in the minimum efficiency time.

Drawing upon the water restriction effectiveness, I am (purely personal opinion) strongly in favour of mandatory DSP.

If the National Electricity Law can enforce no peak generation infrastructure, and that in anticipation of peak, there will be scheduled load shed (similar to level 1, level 2, level 3 restriction....) this will lead to demand side load profile change.

Everyone needs to participate (with the exemption of some life-dependent institutions).

Then the question, will turn back to the general "effective capital investment" and "marginal cost-based spot pricing", which will be outside the scope of this submission.

Thank you for the opportunity to comment the paper.

Teresa Pun