

12 September 2019

The Commissioners
Australian Energy Market Commission
Sydney 2000 NSW

Dear Commissioners,

We write to express our support for the Commission's draft determination allowing demand response service providers to participate in the wholesale energy market. Further, in our view the long-term interests of all consumers are best served by implementing the new rule before the proposed date of July 2022, and extending participation to households at that time.

The Commission's draft decision to implement a wholesale demand response mechanism is one that will benefit all consumers and the energy system as a whole. As well as placing downward pressure on wholesale energy prices and improving reliability for all energy users, the decision recognises the significant benefits of moving towards a two-sided market that empowers consumers. The AEMC's proposed settlement approach ensures that the direct costs of participating in wholesale demand response are, as far as possible, borne by those who directly benefit. It is our view that the demand response opportunities unlocked by this decision will be an enduring feature of this two-sided market.

While there are elements of the draft decision on which we may each have differing views, we all consider that two aspects of the draft decision need to be amended:

1. *The mechanism should be introduced before July 2022*

The AEMC's draft determination deferred implementation of the demand response mechanism to July 2022. We consider the implementation time should be brought forward as much as possible, within the capabilities of AEMO to implement the changes and other relevant material constraints.

A new market for demand response may take some years from inception to reach a mature and optimal state. With recent and anticipated summer peak demand growth, against the backdrop of an aging, less reliable generation fleet and Liddell power station closing no later than 2023, the risk of blackouts and continued market interventions is too great to wait a further three summers from now without developing the market for demand response.

In its 2019 Electricity Statement of Opportunities the Australian Energy Market Operator (AEMO) highlights the urgency of introducing wholesale demand response. In Victoria alone, AEMO suggests up to 1.3 million homes may lose power for up to 4 hours in the summer of 2019/20. AEMO states that in light of reliability concerns in a number of NEM jurisdictions it needs to harness all the resources it can to meet current and future energy needs, and will "look for ways to accelerate participation by customers [in demand response] as a mechanism to support future reliability"¹.

We understand there are various factors influencing the timing of implementation of the new demand response rule, including AEMO's own workplan for other systems changes. If a full introduction before 2022 is not possible, the Commission should fully explore options for a staged introduction starting a summer or two earlier.

¹ Australian Energy Market Operator, 2019. *2019 Electricity Statement of Opportunities*.
https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/NEM_ESOO/2019/2019-Electricity-Statement-of-Opportunities.pdf

2. *All consumers, including households, should be allowed to participate from the outset*

The Commission has decided that only commercial and industrial users will be able to participate initially, excluding households while new consumer protections for DRSP's are considered. Many of the signatories to this submission advocate for household energy consumers, and fully support the requirement of fit-for-purpose protections. However;

- There are household demand response options which have no material risk of affecting people's health and wellbeing - such as pool pumps and household batteries - and these should be part of the demand response market from day one. Australian Consumer Law already provides the key consumer protections people need for demand response with these loads. Australia has over 1.1 million household swimming pools and installs around 90,000 pool pumps - with over 200MW of cumulative nameplate demand - every year². Modelling for the 2019 Integrated System Plan suggests household battery capacity is likely to increase by between 77 and 584MW, and potentially by over a gigawatt, between 2021 and 2022³. If aggregated, these two sources of demand response could offer considerable value to the market.
- Some demand response options - such as hot water systems and smart appliances - may cause inconvenience, but have no material risk of harm to health or wellbeing. These should be part of the demand response market from day one, subject to DRSPs being signatories to the New Energy Tech Consumer Code (NETCC).
- Some loads with the potential to cause harm to people's health or wellbeing - such as air conditioners and electric vehicles - are currently not covered by energy specific protections, and require higher levels of protection than what is afforded under Australian Consumer Law. These should not be part of the demand response market before appropriate consumer protections have been extended to them, and the work to develop these protections should commence at the earliest opportunity. In our view, however, even an implementation horizon of two years would give sufficient time for the development of fit-for-purpose protections.

Households are the main contributor to peak demand, and research by Energy Consumers Australia found more than half of household consumers were willing to voluntarily lower their energy use at peak times and even more were prepared to act with a financial incentive⁴. Delaying participation by these households is a missed opportunity.

We urge the Commission to commence the mechanism at the earliest opportunity, and include residential consumer loads that are unlikely to result in harm to health or wellbeing from the outset.

² Energy Rating, 2019. <http://www.energyrating.gov.au/products/swimming-pool-pumps>

³ Integrated System Plan Modelling Assumptions – Embedded energy storages. 2019. <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Integrated-System-Plan> (excludes 'Slow Change' scenario)

⁴ Energy Consumers Australia, 2019. *Energy reform to put consumers in driver's seat, but must be extended to households*. <https://energyconsumersaustralia.com.au/news/energy-reform-to-put-consumers-in-drivers-seat-but-must-be-extended-to-households>

Yours sincerely,

Australian Council of Social Service
The Australia Institute
Australian Industry Group
Combined Pensioners & Superannuants Association
Consumer Action Law Centre
Buildings Alive
Enel X
Energy Efficiency Council
Ethnic Communities Council
Major Energy Users
NSW Council of Social Service
The Physical Disability Council of NSW
Public Interest Advocacy Centre
Queensland Council of Social Service
Rheem
Renew
Reposit
South Australian Council of Social Service
Tasmanian Council of Social Service
Tenants Union
Total Environment Centre
Victorian Council of Social Service

