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

Email: submissions@aemc.gov.au

Dear Dr Tamblyn

RE: AEMC Draft Review of the Role of Demand Side Participation in the NEM

The NGF appreciates the opportunity to comment on the AEMC Draft Review of the Role of Demand Side Participation (DSP) in the NEM. May we first commend the depth and technical neutrality of this Review and we support in general terms most of the recommendations.

We do feel that the context of this Review is unclear as it encompasses a number of other parallel reviews, some of which have been described as being beyond the scope of this Review (such as retail reforms); and others within the scope (such as the role of the National Transmission Planner). It would be helpful if the AEMC could paint a clearer picture of the context of this Review.

The NGF also has the following comments.

Recommendations with which the NGF agrees

We believe that the recommendations in the following sections are reasonable as they would be helpful in promoting DSP and do not create an artificial bias. The sections are the information provisions in 4.3.1, 4.3.2, 5.1, 5.3 and 6.5.2.

Other suggested information provisions

Currently retailers as Distribution Service Providers or Network Service Providers (NSP) have no obligation to provide information on either price or demand sensitive load into the market. For example hot water off-loading can be effected without any intent being communicated to the market. A retailer might effect such an outcome based on price, or an NSP could do so to alleviate congestion caused by high demand. However market generators must inform the market of their intent.

Generators that manage water releases from hydro units or who operate fast-start plant currently bear the costs of demand side responses that distort expected market outcomes. It is not uncommon for such units to be dispatched and started only to find the price and demand drop considerably and unexpectedly. In many instances, had the load's intention been

communicated to the market, the price would either have not occurred at all or the generator would have sufficient information to reconsider starting the unit.

We request that AEMC consider and propose potential rule changes that would require retailers and NSPs to provide price and demand sensitive load forecasts respectively. As DSP opportunities increase, the impact on market outcomes will also increase and become more significant hence such effects should be considered in this Review.

Information provisions would, ideally, apply equally to both generators and loads. Under the current Rules, generators greater than 30MW are required to signal their intention to operate to the market and, if their operation is significant, NEMMCO can seek the information from smaller plants.

Regulatory test

The NGF supports a single regulatory test that seeks to achieve optimal economic efficiency and hence such a test should consider the value of reliability, market benefits, deferred option value, and risk adjusted costs and benefits. This test is consistent with the description of the "full cost benefit approach" outlined in the Review. Reliability benefits should be included as the market has a defined value of lost load and hence it follows that the value of reliability can be also be determined.

In section 4.4.4, Draft Recommendation 2, the Review refers to "wider national benefits". The NGF believes this term is incorrect and NERA meant to say "national market benefits". This would be consistent with the MCE and AEMC terminology. In either case the NGF supports the NERA recommendation that this term should be defined, which we understand is under consideration as part of the National Transmission Planner consultations. The NGF does support all direct benefits that can reasonably be attributed to the augmentation under consideration, but in the absence of a definition does not necessarily support the concept of "national market benefits".

Role of the National Transmission Planner

The NGF supports the separation of transmission asset owners from the planning body. Hence the role of the National Transmission Planner in DSP should reflect this view and the NGF supports the recommended information requirements consistent with this role.

Other comments

- 4.4.4 NERA points out that it is important to ensure there is no bias in the Regulatory Investment Test toward Network options over market options (either generation or DSP). Until recently removed by the AEMC, the Rules ensured that market options would be preferred to regulated options via a number of provisions surrounding the regulatory test. The provisions effectively gave participants a 12 month period to propose market-based options and required that the regulatory test only be applied when investment in networks was imminent. The NGF would support reinstating provisions like these to provide both supply and demand side proponents time to develop options as alternatives to network investment.
- 5.3 One area that would seem worth further exploration in any review of barriers to DSP in the Rules would be to examine the connection/registration requirements for small generators with those of similarly sized customers. It would seem likely that differences between customer and generator metering, connection, registration, fee and other areas may create real barriers to greater participation in the market of demand side proponents. The NGF has not reviewed these areas in detail, but suggests this may be

fertile ground for the AEMC as part of this demand side review. As with other areas of the review, the NGF would support alignment of demand and supply side requirements to ensure the principle of technological neutrality is maintained in the rules.

As a principle, the Rules should provide that a connecting party should either pay or benefit from their locational decisions. The original market design had included this in clause 5.5, now mainly in Rule 5.4a, whereby a remote supply source would pay the costs of connection and the local supply source could get the benefit of avoided TUOS. Difficulties in valuing the local sources led to the current provisions, which do not correctly value the local source benefits. A principle to allow for locational charging for new connections may allow the combination of the connection charging provisions of Rules 5.3, 5.4a and 5.5 to the benefit of reliable Demand Side Response.

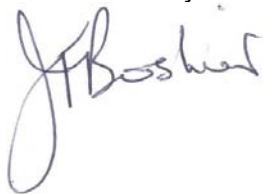
6 We are concerned by an inconsistency in the settlement arrangements for reserve contracts. This inconsistency would make it difficult for NEMMCO to make a rational choice between alternative reserve contracts from supply-side and demand-side participants.

- For a supply-side participant with a reserve contract which is exercised, the effect of clause 3.15.6 (b) is that the participant receives the payment specified in the reserve contract, but no benefit in the energy market.
- For a demand-side participant with a reserve contract which is exercised, there is no dispatch of plant involved and hence clause 3.15.6(b) has no effect. The participant therefore receives both the benefit of payment under the reserve contract, and relief from payment obligations in market settlement as a consequence of the exercise.

Given the very different settlement outcomes in these two alternatives, NEMMCO has no basis for a rational choice if both alternatives were offered.

The Review Panel is urged to address this issue in their review and to introduce Rule changes where necessary.

Yours faithfully



John Boshier
Executive Director