

1 February 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John

Proposed National Electricity Amendment (Demand Management) Rule 2007

Thank you for the opportunity to make this submission on the above amendment to the National Electricity Rules (**Rules**) proposed by the Total Environment Centre (**TEC**).

The bulk of the proposed changes address arrangements for planning, augmenting and funding transmission networks. This is largely outside NEMMCO's area of operation and we have no substantive comments to make in this area.

Our submission comments on two aspects of the TEC proposal: the proposed review of the potential for a market for demand management (**DM**) services; and the treatment of DM in the Annual National Transmission Statement (**ANTS**).

It is noted that the TEC's definition of DM includes an array of activities including cogeneration, standby generation, fuel switching, interruptible customer contracts, and other load-shifting mechanisms. This is broadly consistent with NEMMCO's understanding of DM.

Short-term and long-term price for DM

The TEC have identified the issue as being that "there is currently no mechanism for setting the price of demand side response activities within the market pool".

Section 4.12.2 proposes that NEMMCO "review the potential for a market for DM services and make recommendations about its design and implementation"¹. NEMMCO queries how this would interact with the AEMC's own review of demand-side participation in the National Electricity Market, and whether NEMMCO is the most appropriate entity to undertake the review given the AEMC's functions under the National Electricity Law.

Section 4.12.3 then provides proposed Rules changes to clauses 3.1.4(a) and 3.2.2. It is noted that these changes do not align with section 4.12.2 as the proposed Rule changes suggest a new market design principle, and a requirement that NEMMCO "operate and

¹ The TEC proposal appears to have an editorial error in that it refers to clauses 3.2.2(a1)(2) and (3) instead of clauses 3.1.4(a1)(2) and (3).

administer a spot market for the sale and purchase of demand management services, both short and long term, and electricity and market ancillary services in accordance with" Chapter 3. Assuming that the draft Rule changes reflect the intentions of TEC there are a number of aspects that would need to be clarified including:

- whether consequential changes to the remainder of Chapter 3 are required to cover paragraphs (a) to (h) of clause 3.2.2;
- how a spot market for purchase of short term and long term demand management services might operate;
- how the dispatch and pricing of DM would differ from existing provisions for scheduled generating units and scheduled loads; and
- how the proposal would address the barrier to DM identified in item 8 of section 3.2, that is short notice changes to the wholesale price make advance notification to DM difficult.

In the circumstances, NEMMCO does not believe that this particular Rule change proposal has sufficient content to satisfy the requirements of clause 8 of the National Electricity Regulations.

NEMMCO submits that the TEC proposal on short and long-term price for DM requires further development to be taken further forward at this stage.

Transmission Planning

NEMMCO is responsible for the preparation of the ANTS. Under the current Rules, there are two available ways that DM can be incorporated into the ANTS:

1. In scenarios for additional generation and demand side options to meet demand forecasts. As the Commission may be aware, NEMMCO undertakes annual consultation on data and assumptions for the ANTS analysis, including establishing the demand side options to be used by NEMMCO; and
2. As conceptual network augmentations to address constraints that might be identified in the ANTS analysis. Conceptual augmentations that make use of DM would need to be identified by Transmission Network Services Providers.

I look forward to the Commission's consideration of the above issues. If there are any queries about this submission, please contact Brian Nelson on 02 9239 9132.

Yours faithfully


Dr Brian Spalding
Chief Operating Officer