



11 October 2012

Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Sirs,

Submission on AEMC Draft Report on Power of Choice review EPR0022

The Energy Users Association of Australia (EUAA) welcomes the opportunity to provide its views on the Australian Energy Markets Commission's (AEMC) Power of Choice Draft Decision.

We will restrict our comment in this letter to the AEMC's Draft Decision to introduce arrangements to facilitate end user participation in the wholesale markets. This is the area of interest to the members of the EUAA.

We strongly endorse the AEMC's Draft Decision in this area. The EUAA's members have long sought arrangements that will allow their direct participation in the wholesale market. The Draft Decision represents significant progress in this area and we commend the AEMC for this.

At the DSP public forum on 3 October 2012, we noted equivocal support from some retailers, and hostility from others and the Energy Supply Association of Australia, for the AEMC's Draft Decision. At that forum, the arguments against the introduction of arrangements to facilitate end user participation in the wholesale markets that were raised, include:

1. That the proposal would reduce the ability of generators to raise prices substantially above marginal production costs.
2. That the argument for demand side participation is weaker in an energy-only market (rather than in an energy and capacity market).
3. That the proposals will result in significant implementation costs.
4. That large users can already access the spot market if they wish to and so no additional arrangements are necessary.

We suggest these counter-arguments are not persuasive.

On the first point, if the AEMC's proposals increase competitiveness of the market and hence limit the ability of generators to raise their bids substantially above their marginal costs, this is exactly the sort of outcome that is in the long term interest of consumers and hence should be pursued by the AEMC.

On the second point, the argument for DSP is perhaps even stronger in an energy-only market in which spot prices are typically far more volatile than in capacity and energy markets. As such the gains from user participation in wholesale markets are likely to be even more significant than in energy and capacity markets.

On the third point, it is not clear why it has been suggested that there will be significant implementation costs. Proponents should be asked to substantiate this claim.

On the fourth point, while it is indeed the case that the large users are currently able to access the spot market, there are very substantial costs involved in doing this. Retailers are unlikely to promote this approach either as it reduces the market for the risk management services they provide.

The case for the introduction of arrangements to facilitate user access to the wholesale market is convincing. There is a strong demand for this from large energy users and the benefits in terms of avoided network and market costs are likely to be very significant.

With respect to the detailed issues that the AEMC is seeking stakeholder responses on, we have little to contribute at this point since we are not expert on these issues. Nevertheless it is clear to us that the integrity of the baseline is very important and the AEMC should seek the best international experience, particularly from North America, in considering how this is to be determined.

Our members have considerable interest in the development of arrangements to participate in the wholesale markets and we would be interested in contributing to the working groups to implement the necessary market arrangements and changes to the National Electricity Rules.

Yours faithfully,



Brian Green
Chairman