



Ethnic Communities' Council of NSW Inc.

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03/06/2009

By email: submissions@aemc.gov.au

Australian Energy Market Commission (AEMC)
201 Elizabeth St
Sydney NSW 2000

Review of Demand-side Participation in the National Electricity Market Submission to Draft Report

Dear Secretariat,

Ethnic Communities Council of NSW (ECC) welcomes the opportunity to comment on the AEMC's draft report "Demand-side Participation in the National Electricity Market".

As we all know there is not sufficient demand side participation (DSP) take place in the NEM to hence an efficient interaction between electricity demand and supply. The market doesn't work efficiently if it only addresses supply resources. From our understanding of the NEM, there have been a couple of pricing events (re: the pool price reached the \$10,000 per MWh cap); and the fast growth of peak demand issue does not get sufficient attention in the NEM.

In AEMC's **Review of Energy Market Frameworks in light of Climate Change Policies 1st Interim Report**, page executive summary v 4th paragraph, "In the WEM (Wholesale Electricity Market in Western Australia), the signal for new capacity is delivered more explicitly through the operation of a capacity mechanism." The objectives of the WEM explicitly recognise demand management and load shifting. One problem in the NEM is that generators are able to use their market power to increase prices and rebid into the market. On a 5-minute cycle, there is not sufficient time for a demand aggregator, or a big user, to respond to. At present, the design of the NEM discourages demand management, partly because only the gas generators can operate at short notice.

In NEMMCO & AEMC investigations, the generation may play their market power to bid in at the last minute to get the highest profits. From overseas experiences, if we could set up the capacity market in the NEM to make the demand response participate in the NEM easier, it will reduce the potential of generations' control of the pool price. Then, the market will operate more efficiently.

Other countries, such as the PJM Market (Pennsylvania, New Jersey and Massachusetts) in USA, have a short-term forward capacity market as well as an energy market, which overcomes this timing issue and makes it easier for demand management to bid into the market. Having a capacity market in the NEM could have the effect of dampening some of the variability in prices. A capacity market is an idea

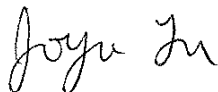
that is worth investigating further. It is the fundamental way of encouraging the meaningful amount of demand side participation in the NEM.

The AEMC review concluded that a reserve capacity shortfall is possible in the NEM, but not in WA or the NT. It is in the long-term interests of consumers and the community to use a mechanism such as a capacity market in the NEM. In the future, the exercise of market power will mean that peak demand will not be lessened, nor the high wholesale electricity price. Under current NEM operation, the financial return for the DSP is uncertain. This creates lots of risks for the DM provider and discourages their participation.

Due to the nature of the NEM ie energy market (kWh) instead of capacity market (kW), the value of DSP is not fully recognized, like it in the day-ahead market from overseas and WA. The detailed discussions of electricity capacity market could be found at the **CRA's Final Report: Short-term Forward Market** (Please see the APPENDIX). We suggested the establishment of capacity market in the NEM to enable the capacity trade and DM clearing price settled day-ahead. Market rules that accommodate demand response serve all players and resources need to be in place as well.

If you have any questions about this submission, please contact me on 02 9319 0288.

Sincerely yours,

A handwritten signature in black ink that reads "Joyce Fu". The signature is written in a cursive, flowing style.

Joyce Fu
Energy Program Coordinator
Ethnic Communities' Council of NSW Inc.