

5 January ,2012

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

***Proposed Rule Change – New Prudential Standards and Framework in the NEM***

Dear Commissioners Pierce, Henderson, Spalding:

EnerNOC thanks the AEMC for the opportunity to contribute to the proposed Rule to amend the prudential framework in the National Electricity Market (NEM), by introducing a new statistical standard that will be used to calculate collateral requirements for participants.

Seed Advisory's work is to be applauded as it has highlights that the risk of probability of loss given default is related to the Market Customer's load factor. Therefore a Market Customer that actively monitors and adjusts their peak demand to ensure a flatter load profile will effectively improve their load factor and hence reduce their prudentials. As a Demand Response (DR) aggregator, EnerNOC is pleased to see that there is recognition that limiting peak demand can be of benefit to market participants and if the proposed Rule change is adopted we look forward to these benefits ultimately flowing on to customers too.

The AEMC will have seen from previous submissions EnerNOC is of the view that generation and DR options are equivalent at peak demand (for the top 40 hours or so of peak demand) and should therefore be treated equally. However for the management of load factor there are several reasons why DR is superior to generation, for example:

- Building generation to meet peak demand will cost more than \$1m/MW of capacity, as compared to developing and executing an equivalent DR program which is far less expensive (costs depend greatly on the type of DR program but a favourable economic outcome is unquestionable).
- Customers who participate in DR programs (i.e. commercial and industrial customers) are financially rewarded which effectively lowers their cost of electricity and ultimately helps them to be more profitable and/or create more jobs.
- DR programs can be developed in a matter of months, whereas a generator will possibly take many years to have available.
- Peak generation is likely to be gas or diesel fuelled, whereas DR programs are typically 60% curtailable load – an important factor when consideration is given to carbon abatement.

When applied to prudentials we acknowledge that there are differences from a risk re-allocation perspective. Generation in these circumstances results in a positive payment obligation from AEMO to the participant, whereas DR in the form of load curtailment would result in a reduction of outstandings to AEMO from the participant. However, on balance we sincerely hope Market Customers (and others) will recognise the superior benefits of better management of peak demand (rather than building more generation) and that this may lead to changes in other aspects of the NEM where DR can contribute to market improvements.

Thank you again for the opportunity to respond to this review. Please do not hesitate to contact me directly with any questions related to this submission.

Regards,

A handwritten signature in black ink, reading "Michael Zammit". The signature is written in a cursive style with a large, stylized initial "M".

Michael Zammit  
Principal, Market Development