



26th August 2019

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
E: aemc@aemc.gov.au

Dear Sir/Madam,

Re: Draft determination for a wholesale demand response mechanism

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft rule determination for a wholesale demand response mechanism.

The Victorian Greenhouse Alliances represent 60 local governments across Victoria (see Attachment 1) working together on energy and climate change projects, advocacy and knowledge sharing. The Alliances have operated since 2000 and have a long history of advocating on behalf of local government on energy market reform.

Support the rule change

Victorian councils within the Greenhouse Alliances support the proposed rule change for the introduction of a demand response market mechanism and consider this one of the most critical energy market reforms over the past decade. The rule change will enable lower wholesale prices, greater reliability and security of supply, and facilitate emission reductions in the National Electricity Market (NEM).

Although the detail of the rule change is complex, the principles of demand response are simple and function well in other jurisdictions, such as the United States, European Union, and China. The rule change will incentivise energy users (such as local governments) to curb their electricity consumption in peak demand periods, when wholesale prices spike or where there is a shortfall of supply. By reducing demand during peak periods, surplus power can be sold back into the grid, as '*negawatts*'.

The proposed rule change will be an important component of affordably managing a transition to high levels of renewable generation. The reform will help to ease pressure on the electricity network at peak times and during extreme weather events or unexpected generation outages. With climate change projections seeing an increase in extreme weather events across the National Electricity Market (NEM), this type of demand side flexibility will be an important tool to keep the lights on.

Timeframe brought forward

Whilst the draft rule change is welcomed by councils, reform is required much earlier than the proposed timeline by mid-2022. Considering that the first rule change was put forward ten years ago, and the speed at which the energy market is currently transforming, the proposed timelines should be revisited.

There have been many positive trials in demand response over the years that should form the basis of a more expedient rule change process. For example, ARENA and AEMO's three year \$35 million trial to deliver 200 MW of demand response as emergency reserves, in partnership with the NSW Government¹.

¹ <https://arena.gov.au/blog/australians-demand-secure-reliable-energy/>



Similarly, demand response has already been put in to practice through the Reliability and Emergency Reserve Trader (RERT) mechanism. In the summer of 2019, AEMO contracted demand response from large customers to avoid blackouts on two days in Victoria and South Australia at a cost of \$52 million².

Inclusion of residential and small business customers

To ensure that this reform can truly deliver the full benefits across the energy market, councils urge the AEMC to provide a clear plan for the inclusion of households and small businesses..

As it stands, the draft rule change proposes only commercial and industrial customers may participate in demand response, with the inclusion of residential and small business postponed indefinitely. This is despite much of the groundwork being already laid through trials and existing consumer protection work to expedite the inclusion of residential households and small businesses. This view is shared by many consumer advocacy groups who are both proponents of the rule change, and those who are most attuned to consumer protections. The proposed introduction of a new market participant (Demand Response Service Providers) will also increase competition and dilute market power of incumbent retailers, ultimately benefitting consumers.

The latest Energy Consumer Satisfaction Survey from Energy Consumers Australia provides some insights into the likely interest and uptake of demand from consumers³. Most residential consumers (around 45%) indicated they are prepared to reduce energy use during periods of very high demand. An additional 25% of consumers have indicated they are interested with an incentive. 60% of small business consumers think consumers should be rewarded for reducing energy use during peak periods. It should also be noted that emerging technologies, in particular electric vehicles, have the potential to substantially add to residential demand (as well as manage that through vehicle to storage connection), adding to the need to apply the mechanism to this sector.

It is understood that retailers have argued that customers should access demand response opportunities via retailers rather than through this mechanism. In February 2018, research by the Public Interest Advocacy Centre showed only 1 in 23 NSW retailers offered demand response to residential customers when contacted. The same study was repeated one year later - again, only one small retailer was found to offer demand response⁴.

Excluding households and small businesses indefinitely is therefore unnecessary. Existing Australian consumer law provides key protections for people within energy contracts, and these could be adequately reviewed in the timeframe. In addition, there are many household demand response options, which pose no risk to quality of life – pool pumps and household batteries offer considerable flexibility and value to the market.

Thank you for the opportunity to make a submission to this important energy market reform. For questions relating to this submission, please contact:

- Rob Law, Central Victorian Greenhouse Alliance, eo@cvga.org.au
- Scott McKenry, Eastern Alliance for Greenhouse Action, scott.mckenry@maroondah.vic.gov.au
- Bronwyn Chapman, Goulburn Broken Greenhouse Alliance, eo@gbga.org.au
- David Meiklejohn, Northern Alliance for Greenhouse Action, david@naga.org.au

² <https://reneweconomy.com.au/whos-afraid-of-demand-response-71616/>

³ <https://energyconsumersaustralia.com.au/hearing-on-the-wholesale-demand-response-mechanism-draft-determination-speech-notes/>

⁴ <https://www.abc.net.au/news/2019-07-18/electricity-prices-demand-response-retailers-energy-market/11321360>



- Dominique La Fontaine, South East Council Climate Change Alliance, dlafontaine@seccca.org.au
- Fran MacDonald, Western Alliance for Greenhouse Action, FranM@brimbank.vic.gov.au



APPENDIX 1

This submission was prepared by the Victorian Greenhouse Alliances, partnerships of councils working to address climate change in their regions:

- Central Victorian Greenhouse Alliance (CVGA) – Ararat, Ballarat, Buloke, Central Goldfields, Gannawarra, Greater Bendigo, Hepburn, Loddon, Macedon Ranges, Mildura, Mount Alexander, Pyrenees, Swan Hill
- Eastern Alliance for Greenhouse Action (EAGA) – Boroondara, Glen Eira, Knox, Maroondah, Monash, Stonnington, Whitehorse, Yarra Ranges
- Goulburn Broken Greenhouse Alliance (GBGA) – Benalla, Campaspe, Indigo, Mansfield, Mitchell, Moira, Murrindindi, Shepparton, Strathbogrie, Wangaratta, Wodonga
- Northern Alliance for Greenhouse Action (NAGA) – Banyule, Darebin, Hume, Manningham, Melbourne, Nillumbik, Moreland, Whittlesea, Yarra and the Australian Energy Foundation
- South East Councils Climate Change Alliance (SECCCA) – Bass Coast, Bayside, Cardinia, Casey, Greater Dandenong, Kingston, Mornington Peninsula, Port Phillip
- Western Alliance for Greenhouse Action (WAGA) – Brimbank, Greater Geelong, Hobsons Bay, Maribyrnong, Melton, Moonee Valley, Moorabool, Wyndham

The submission has been approved through the Greenhouse Alliances' formal governance structures but may have not been formally considered by individual members. The submission does not necessarily represent the views of all councils.