

RESPONSE TO
MCE DISCUSSION PAPER

“IMPROVING USER PARTICIPATION IN THE AUSTRALIAN ENERGY MARKET”

16 April 2004

Thank you for the opportunity to comment on the discussion paper regarding ‘Improving User Participation in the Australian Energy Market’.

As the Queensland transmission network service provider, Powerlink Queensland is required under the National Electricity Code to evaluate alternatives to proposed major transmission network augmentations in accordance with the ACCC Regulatory Test. Such alternatives may include demand side responses.

The comments contained in this submission only address the interaction between demand side response and network investment. Powerlink has not commented on the relationship between user participation and market spot price, interval meters or retail price issues.

The key point of this submission is that the value of any mechanism to encourage greater user participation in the NEM in terms of deferring network investment is dependent on whether the demand side response can be substituted for the relevant network investment. For this reason, Powerlink considers that mechanisms designed to encourage greater demand side participation in the NEM (eg – an aggregation facility etc) must be developed with awareness of the following issues:

- the ‘drivers’ of network investment and the ‘drivers’ of prices in the NEM can be quite different. Network investment to maintain reliability of supply to customers is largely driven by increases in peak demand which cause the transfer limits of the existing network to be reached. High wholesale market or retail prices may, but do not necessarily, coincide with peak demand periods.

- Any mechanism that is structured so as to allow customers to be rewarded for the value associated with reducing demand during high priced periods will, alone, be unlikely to deliver any change in network investment requirements. For example, the discussion paper refers to reducing demand during periods of network congestion and the potential gain due to deferral of distribution network investments. However, a possible response which is discussed is the creation of a secondary market where an aggregated response can be sold to parties interested in hedging their position against spot price volatility. There may be very little relationship between the outcomes of such a secondary market and the need for network investment.

- A demand side response cannot be utilised as a substitute for a network investment unless it is able to meet the mandated reliability obligations on a network service provider and related exposures to liability for non-delivery. A demand side response has very limited value in terms of deferral of network investment required to maintain a reliable supply to customers if it is not capable of satisfying these reliability obligations. While Powerlink can only comment from our perspective as a transmission entity, we are concerned at the inference in the discussion paper that different pricing approaches may be behind “distributors assigning a lower value to demand response than expected”. From our perspective, it is the statutory obligations to maintain reliability, associated significant exposures to liability, and incentives for network performance, that affect the ability of a network service provider (NSP) to utilise demand side management initiatives.

- This issue needs to be considered in any further investigation of the value a demand aggregation facility creates in the market for various market participants. Incentives for greater user participation in the NEM must, if they are to defer network investment, reduce peak demand in a way that will satisfy the reliability obligations of the NSP.

- The discussion paper specifically referred to the possibility that the Working Group may commission external advice on the changes that may be required to regulatory arrangements and incentives to ensure that network service providers are motivated to use demand side responses effectively. Powerlink agrees that this may be an area worth investigating. However, we strongly believe that any changes to incentives or regulatory arrangements must not be made in isolation. It is essential that there be consistency with other regulatory requirements related to network investment, and that any changes recognise the reliability obligations that a network service provider must meet.

Powerlink welcomes the opportunity to be involved in the Ministerial Council of Energy process examining the reform of energy markets. We look forward to further developments in improving user participation in the NEM, and involvement in future consultation processes.

Yours sincerely,

Gordon H. Jardine
CHIEF EXECUTIVE

Enquiries: A Gray Telephone: (07) 3860 2300