

Mr Paul Smith
Senior Director
Australian Energy Market Commission
submissions@aemc.gov.au

Dear Mr Smith

The Australian Energy Market Commission (AEMC) has sought comment on its Strategic Priorities for Energy Market Development. This submission sets out the Energy Efficiency Council's views on the Strategic Priorities Discussion Paper released on 1 April 2011.

The Energy Efficiency Council is the peak body for companies that provide energy efficiency and cogeneration services and products to businesses and governments. The Energy Efficiency Council brings together Australia's experts in the technical, commercial and policy aspects of energy efficiency and cogeneration, and so the Council is uniquely placed to support the AEMC in examining demand-side issues.

The Energy Efficiency Council strongly supports the AEMC proposal to put demand-side as one of its three strategic priorities, and recommends that distributed generation, particularly cogeneration, should be made a fourth strategic priority.

Demand-side participation

The Council agrees that the AEMC needs to make demand-side actions a priority for its work, including energy efficiency, peak demand reduction and demand response. As the discussion paper notes on page 44:

"The role of the demand side in energy markets is arguably one of the biggest areas of untapped potential in the Australian energy markets, although it has to be acknowledged that information about the scale of DSP in Australia has not been collected on a systematic basis in the past."

International and domestic experience demonstrates that demand-side participation can be highly cost-effective as part of a total energy solution. If Australia is going to tap into this opportunity it will need well-designed, stable demand-side programs that encourage participation by energy users and the demand-side industry.

The Council recommends that the AEMC adopt a wide definition of demand-side participation both in its strategic priorities and its Stage 3 Demand-Side Participation Review. It is critical that the AEMC move beyond simply eliminating barriers to demand-side participation that are caused by the National Electricity Market (NEM)'s current rules and regulations, as these are only a fraction of the barriers to demand-side activities. Other barriers include skill gaps, misaligned incentives and regulations that sit outside the NEM.

The AEMC has the opportunity to examine demand-side issues broadly and determine how to foster a market where participants use demand-side activities to optimise the NEM. Therefore, the Demand-Side Participation Review would ideally:

- Identify the full set of barriers to demand-side participation, both within and outside the NEM rules and regulations, including skill gaps amongst network companies.
- Assess the current regulation of distribution and transmission network companies and its suitability at fostering demand-side activities that offset expenditure on grid augmentation. This will require links with the AEMC's third strategic priority.
- Determine which of the barriers to demand-side participation are best addressed through the NEM rules and regulations, and which are best addressed through other routes.

- Identify the types of demand side participation that are available today and their value within the wholesale, network and ancillary markets.
- Assess the effectiveness of current demand-side initiatives. Incomplete, short-term, ad hoc and reactive initiatives will have limited benefits.
- Provide overarching strategic directions on and demand market in the NEM and detailed recommendations to develop demand-side participation.

The Energy Efficiency Council looks forward to working with the AEMC on the Demand-Side Participation Review.

Distributed Generation

Over the next forty years distributed generation will play an increasingly large and important role in Australia's energy market, providing both energy and grid stabilisation services. There are a number of barriers to the optimal investment in distributed generation, including cogeneration. These include:

- Difficulties and inconsistencies in the process and the costs for connecting cogeneration system to the electricity network
- Investment in transmission and distribution networks to support the connection of distributed generation
- Rules and regulations in relation to selling and distributing electricity produced by distributed generation that fail to recognise the benefits of distributed generation

The AEMC's proposed set of strategic priorities will not address all of these issues, and under the current framework of strategic priorities the remaining issues will not be addressed in an integrated way.

For example, the AEMC's proposed third Strategic Priority will look at options to ensure that the transmission framework delivers efficient and timely investment. However, many of the opportunities for distributed generation involve connection to the distribution network, not the transmission network. Similarly, the AEMC's first strategic priority, a predictable regulatory and market environment for rewarding economically efficient investment, focuses on the issues that are faced by large-scale generation assets, but there are a number of additional issues that are faced by distributed generation proponents.

Therefore, the Council recommends setting a fourth strategic priority to address barriers to distributed generation, and looks forward to working with the AEMC in developing its work program on distributed generation.

If you would like to discuss any of the issues raised in this submission please contact the Energy Efficiency Council on 03 8327 8422.

Yours sincerely



Rob Murray-Leach,
Chief Executive Officer