



**eec**

**Energy Efficiency Council submission to the Peak Demand  
Reduction Scheme Rule change 2 consultation paper**

**15 November 2023**

## General comments

The Energy Efficiency Council (EEC) welcomes the opportunity to comment on the Office of Energy and Climate Change's consultation paper on proposed rule changes for the Peak Demand Response Scheme in 2024. The EEC is Australia's peak body for energy efficiency, energy management and decarbonisation, with members drawn from business, academia, NGOs and government. The EEC welcomes the NSW Government's commitment to developing demand side involvement in the energy system, supporting a transition to a zero emissions energy system at least cost.

### Incentivising greater demand management capability

The EEC strongly supports the NSW Government's intention to incentivise bringing additional demand response (DR) resources to market. Demand management – both as peak demand response used during periods of exceptionally high demand and as flexible demand used on a more regular basis – can provide support to the security and reliability of the electricity system during periods of mismatched demand and supply.

The EEC supports the move to incentivise energy users to participate in the Wholesale Demand Response Scheme. This measure seeks to overcome some of the difficulties in establishing demand response capacity in an energy-only market.

Large-scale demand response capacity (particularly where the capacity is related to load shedding or fuel substitution) is designed to be dispatched on an exceptional basis, rather than as a daily event. Participation in the WDRM requires establishing compatible demand response capability involving significant upfront investment, however due to the irregular nature of much demand response there is little certainty that DR participants will be dispatched in sufficient volume to recover their investment – or indeed at all. This is a barrier that is unlikely to be substantially overcome by the forthcoming Capacity Investment Scheme.

Yet demand response *capacity* provides highly valuable insurance to the energy system. This means that incentives to establish DR capacity are particularly important, and the EEC strongly supports the intention to establish capacity incentives in the PDRS.

However, we would suggest that consideration should be given to maximising the range of DR resources that the proposed activity could incentivise. Beyond the lack of incentives to establish capacity, participation in the WDRM is currently difficult for a range of potential DR facilities for technical reasons, including restrictive baseline requirements. The EEC would welcome the involvement and support of the NSW Government in efforts to make the WDRM suitable for a larger suite of commercial and industrial loads that could be suitable for emergency demand response. Reforms to the WDRM to make participation easier will complement the proposed WARM activity and unlock a higher degree of security for the NSW energy system.

We also note that our members have made some technical suggestions for improvements to the WARM activity – such as accommodation of non-contiguous DR blocks within the peak demand period – that could enhance the availability of the WARM activity.

### Bring forward demand management and load-shifting incentives

The EEC also suggests that the current proposed changes to the PDRS rule should go beyond demand response for commercial and industrial loads towards creating load-shifting opportunities (beyond residential battery installation and virtual power plant participation). Demand management with flexible demand shifting is the most valuable form of demand response, as it can simultaneously bring the benefits of reducing demand during peak periods while preserving the economic benefits of production that is not curtailed but shifted to other parts of the day.

For example, there are opportunities with retailer and/or aggregator-led demand response services with residential or small business customers, particularly utilising collective flexible

demand resources of smart appliances, however the transaction costs of establishing these types of aggregated resources can be significant.

The PDRS is the appropriate incentive scheme for this opportunity, as it could enable demand shifting opportunities through smaller commercial and industrial customers that could find participation in the WDRM overly difficult. The availability of supportive policy frameworks like the PDRS is likely to be essential to incentivise investment by energy users and service providers in innovative, automated demand flexibility platforms and services – particularly where customers face limited or muted price signals to shift load. The EEC understands that development of new demand shifting activities may not be possible in this round of the PDRS changes but urges the NSW Government to consider introducing further demand shifting activities as soon as possible.

### Specific consultation questions

The EEC has no comments on the detailed consultation questions at this time.