

14 September 2012

Sophie Dunstone
Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600

The Senate's Select Committee on Electricity Prices

Dear Senators

We are concerned that the structure of the National Electricity Market and the vested interest of the generation and network participants will only lead to ever increasing electricity prices. We have formed this view based on the following:

- The consumption of electricity is now reducing due in major part to a range of sound policies which have encouraged roof top solar, energy efficiency and other consumer actions to reduce electricity consumption from the grid. However, we do not have policies which would lead to a market mechanism to decrease peaks in electricity usage. These peaks which occur on unusually hot days last between 3 – 5 hrs, and occur for only 3 to 4 times per year are driving the need for further investment in infrastructure.
- The Federal Government's White Paper of November 2011 forecasts that an additional \$240bn of capital investment is required for the electricity system over the next 18 years. The majority of this investment is in distribution and generation capacity that is only used for less than 100 hours a year. The current electricity rules and regulations will continue to drive this additional inefficient investment in building supply side electricity infrastructure to meet the unabated peaks. The cost of this additional infrastructure will drive electricity prices upwards and provides opportunity for growth for the current market participants.

Polical leadership is required to break this cycle

Since the NEM commenced in 1998 there have been at least 4 major statements, trials or reviews (ACCC Chairman Alan Fells, Parer Report 2002, EUAA Report on National Trial of DR 2004, ERIG report for COAG 2004) which all recommended the implementation of a Demand Response (DR) mechanism in the National Electricity Market – all these recommendations for Demand Response have been ignored.

A Demand Response mechanism is an extremely capital efficient mechanism of reducing peak demand. Bruce Mountain, Director of Carbon Market Economics (CME) has estimated that the failure to adopt a Demand Response mechanism in the NEM has cost

the 9 million electricity users in the order of \$15.8bn – reference
([http://www.carbonmarkets.com.au/CME/Publications -
_reports_and_presentations_files/120822%20final%20avoided%20cost%20report%20fo
r%20ENERNOC.pdf](http://www.carbonmarkets.com.au/CME/Publications_-_reports_and_presentations_files/120822%20final%20avoided%20cost%20report%20for%20ENERNOC.pdf))

Over the last 10 years the UK has changed their market from an energy only market like the NEM to a capacity market with Demand Response, and the Western Australian capacity market treats Demand Response and generation equally. Most other energy only markets (there are only a handful left) have added Demand Respond into their market to varying degrees (eg, Texas and Ontario).

We would like to draw to the attention of the Senate’s Select Committee on Electricity Prices that the National Electricity Law has an objective imbedded in it called the National Electricity Objective (NEO) which states

“The National Electricity Objective, as stated in the National Electricity Law is:

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

1. price, quality, safety, reliability, and security of supply of electricity;
and
2. the reliability, safety and security of the national electricity system.”

While the reliability and security components of the NEO are reasonably well addressed the efficient investment component is not. Political leadership is required to introduce an effective Demand Response mechanism into the National Electricity Market. We believe that such a mechanism will enable the establishment of a demand response capacity of some 3000MW at almost no cost to set up, which reduce the need for expensive supply side infrastructure investment and lead to a more efficient energy market for the benefit of all consumers.

The case for replacing inefficient capital investment in generation and network with a mechanism that effectively pays industry and commerce to shed some load at times of peak demand, resulting in lowering electricity prices over the long term, would be politically popular but also essential to meet the NEO.

Yours Sincerely

Michael Panaccio
Investment Principal
Starfish Ventures