

20 August 2009

The Office of the Tasmanian Economic Regulator
GPO Box 770
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By email to: office@economicregulator.tas.gov.au

**SUBMISSION BY ENERGY RESPONSE PTY LTD REGARDING:
NOTICE OF INTENTION TO DECLARE THE SUPPLY OF RAISE
CONTINGENCY FREQUENCY CONTROL ANCILLARY SERVICES BY
HYDRO TASMANIA AS A DECLARED ELECTRICAL SERVICE**

Thank you for the opportunity to make this submission.

Energy Response is a Demand Side Response (DSR) aggregation company and we operate in 4 electricity markets, viz: the National Electricity Market (NEM), the West Australian Wholesale Electricity Market (WEM), areas operated by Horizon Power of WA and the New Zealand Electricity Market (NZEM).

Our ability to compare these markets affords us a very clear perspective on the FCAS issues outlined. Our view, which is supported by the AEMC's DSR Review, is that the NEM rules must be changed to allow greater participation from the demand side. Increased competition for FCAS services (as well as for other services across the NEM) is the only way for the market to operate efficiently and the only way to align costs and benefits with the best outcomes for consumers. Making declarations masks the issues and effectively moves the market back to more a regulated environment. There is a better solution.

The current NEM rules on FCAS do not allow aggregation of customer loads, or the use of automated frequency sensing and dispatching, or the involvement of a DSR aggregator. We understand that the AEMC is in favour of encouraging more competition in the NEM and AEMO has recognised that a (relatively) simple rule change could be applied to the FCAS provision to allow greater demand participation. Our understanding is that preparatory work to allow aggregated DSR to provide FCAS is well advanced.

In the NZEM the market rules are complementary to DSR aggregation for FCAS. In the past 12 months Energy Response has installed devices at more than 20 locations and is working to have 350 customer sites operating in the Sustained and Fast Instantaneous Reserves (SIR and FIR) markets (effectively FCAS) over the next two years. This will provide between 70MW and 120MW of customer load to participate in these markets, significantly increasing the competition to provide FCAS.

Customers contracted for these programs are willing to enter into long term contracts and participate in these programs for a fair return. Some are even discussing how they can better provide these and other DSR services by committing to capital investment in their facilities which will improve the response times and/or the quantity of DSR provided. Ultimately, customers who participate in these programs are using their earnings from DSR programs to offset their electricity costs, which have follow on benefits like making these companies more competitive and making it easier for them to maintain jobs. This New Zealand program is proving to be 100% reliable to the electricity grid and as a security product it has to be highly reliable. References are available.

The technical solution is readily available and easily installed. Further, our operational experience confirms that meeting the 6 and 60 second FCAS requirements would be relatively trivial and curtailed demand profiles can fit well within a required response envelope.

We appreciate the interim nature of the declaration (ie 3 years) however with a little foresight it would be relatively simple to have applied a rule change and made this whole process unnecessary. Hopefully sensible actions by AEMC, AEMO and OTTER will prevail and allow the market to operate as it was always meant to – with both supply and demand programs simultaneously active.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Michael Zammit', with a stylized flourish at the end.

Michael Zammit
Managing Director