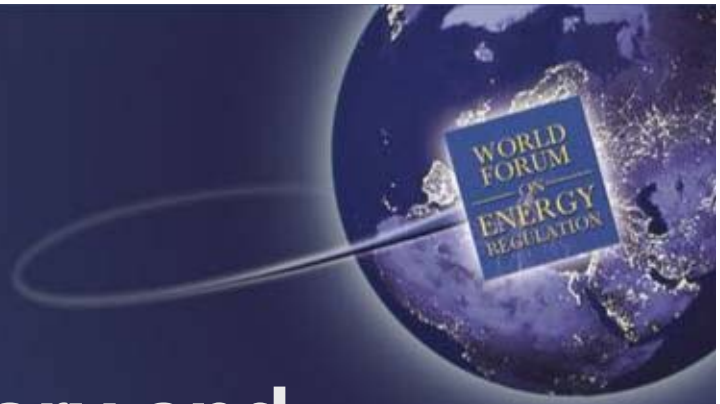
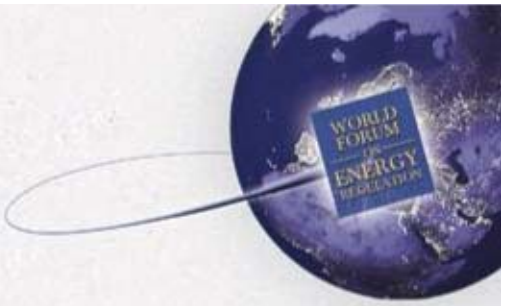


"Reducing Regulatory and Technological Barriers to Demand Side Participation“

John Tamblyn
Chairman, Australian Energy Market Commission

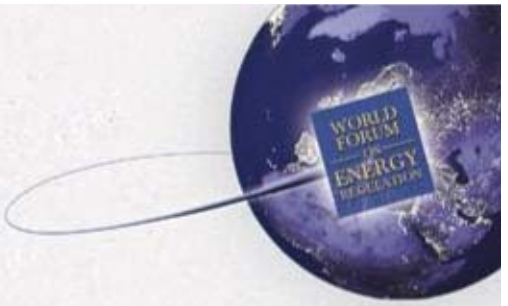
- World Forum on Energy Regulation IV
  Athens, Greece

Why does it matter?



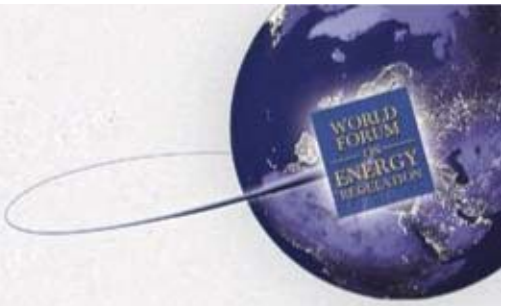
- Building ever more generation and transmission to serve peak demand is costly
  - carbon pricing will increase these costs further
- Essential to ‘do more’ in load management space
- Risk of regulatory frameworks being slow to adjust, and inhibiting change
  - regulatory authorities must act to minimise this risk

What can frameworks do?



- Create incentives for regulated networks to use demand response efficiently
- Support and reward network technical and service innovation
- Facilitate funding for policy-driven capital programs, e.g. ‘smart’ grids and meters
- Facilitate wholesale market trading of demand response and new retail market tariffs and services
- Provide system operators with full access to demand response in managing unexpected capacity shortages

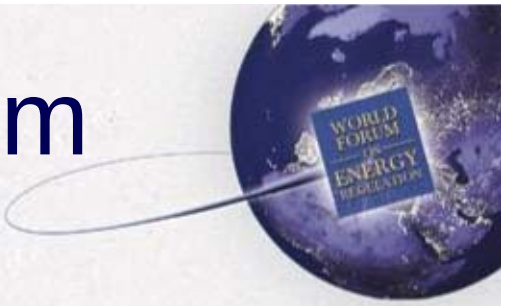
What should frameworks avoid



- Unnecessarily limiting the role that commercial incentives can play in delivering solutions at efficient cost

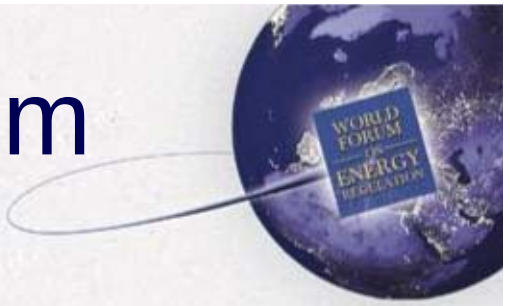
- Failing to recognise the value that consumers – and societies – place on energy use

Findings and challenges from our analysis (1)



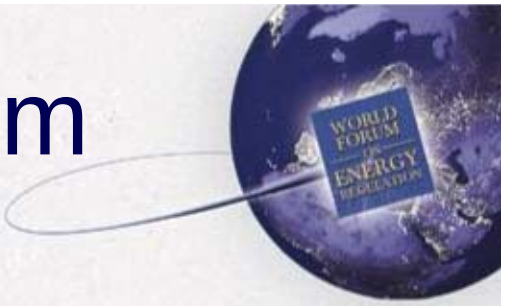
- Price caps provide incentives for network procurement of demand response but some obstacles
  - Conservative mind-set of network businesses
  - Technological limitations
- Technology can unlock much larger load management opportunities, but is costly and raises particular regulatory challenges:
  - What load control ‘services’ do networks provide to retailers?
  - How ‘bundled’ or accessible are these services?
  - What incentives for quality, and regulation of access and price – so that benefits flow to consumers?

Findings and challenges from our analysis (2)



- Regulatory challenges over how to allocate risk of capital investment for technological innovation
- If risks underwritten by consumers, then protections needed:
  - Technology trials, e.g. Australian government “Smart Grids, Smart Cities” initiative
  - Risk-sharing ‘innovation incentives’ for network businesses
- Role for network pricing in signaling costs to be traded off against the benefits
  - in some cases it will be more efficient to augment the network than to curtail the load

Findings and challenges from our analysis (3)



- Wholesale markets – many routes to market:
  - Direct participation, e.g. ‘spot price pass through’ retail contracts
  - Indirect participation, e.g. bilateral contracts with retailers, demand response sold as a hedge contract
- Reliability management
  - Potential for demand response to help manage unexpected capacity shortfalls
  - Prudent risk management in times of change
  - Mechanisms for timely procurement by system operator
  - Care needed in design to avoid diluting market incentives to offer capacity