

2011-02-01

Dr. Troy Forward
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Sent by email to market.development@imowa.com.au

Re: Change Proposal No: RC_2010_29

Dear Troy,

Thank you for the opportunity to comment on the Independent Market Operator's (IMO's) proposed rule change number RC_2010_29.

From a general point of view, Energy Response (ER), as a DSM aggregator, finds the proposed changes to the WEM rules quite reasonable. These changes are further steps towards leveling the playing field between generation and DSM, which is necessary to achieve the WEM objectives.

At a detailed level there are various areas of concern for Energy Response. Of particular note are:

- The removal of substitutions and adjustment from the Relevant Demand (RD) measurement method is problematic;
- A clearer definition is required of Forced Outages when related to Non Dispatchable Loads (NDLs) as there is confusion as to their impact on a DSM portfolio; and
- Greater clarity is required on when the new capacity is paid from and when the security deposit is expected to be returned.

We also suggest some further changes to continue to rationalise and streamline processes for both the IMO and System Management.

Issue 1: Registration of Curtailable Loads

We agree that the load's connection point can, and clearly does, belong to two market participants: to a market customer for the provision of energy, and to the DSP provider as a Non-Dispatchable Load (NDL). Historically, since the market customer was the only purveyor of both energy and DSM services, this issue has been masked. The advent of DSM aggregators such as ER has necessitated clearer separation between the energy and capacity components of the market.

This change will make a contribution towards meeting the Market Objectives because:

- It brings greater clarity to how DSM aggregators gain access to NDLS, and therefore will promote new entrants and as a consequence greater competition
- It avoids discrimination against DSM aggregators at the connection point
- It encourages more DSM to be made available, which will help end users manage their energy better.

There are expected to be no cost impacts for Energy Response from the implementation of this rule change and we expect only positive outcomes for DSR aggregation.

Issue 2: Facility Definition

Our overall comment on this issue is supportive: moving from registration of individual NMIs to an aggregated block (or DSP) approach is an efficient and logical outcome, and is evidence of progress to more closely align the Rules to the Market Objectives. Managing, monitoring and measuring each individual NDLS should be left to the DSM aggregator allowing System Management greater operational efficiency by requesting the total amount of MWs required to meet reserve requirements.

Issue 3: Market Fees

Energy Response supports the IMO's stance on this matter.

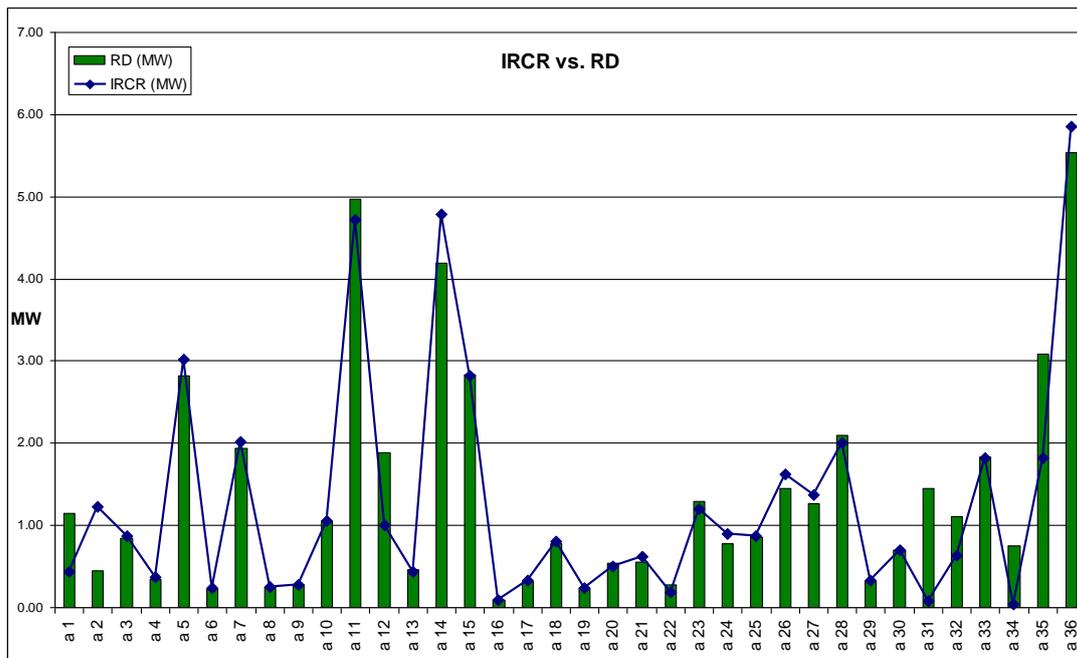
Issue 4: Measurement of CL Performance

Energy Response is concerned with the changes proposed in this issue. In practice the current Relevant Demand measurement methodology which allows substitutions is acceptable, however the use of the IRCR intervals will only be suitable **if substitutions and adjustments are allowed**.

Additionally the use of a small subset of data (i.e. the IRCR 12 intervals) poses another difficulty in this respect and is not a very robust approach when dealing with the inherent variability of large commercial and industrial loads; this can cause serious problems without a substitution option.

Sites do have extended shutdowns and outages. That does not mean that they are unable to provide benefit to the market in the following summer.

To highlight the issues please consider the effect on our own portfolio:



The total DSM capacity of the 36 sites contracted to Energy Response where substitutions have been applied is approximately 49MW, however if we use the IRCR readings as the baseline this capacity is only 45.5MW. That reflects a loss of almost 8% of our total DSM available. This loss is not adjustable under the proposed changes and is compounded by the fact that loss factors are also not compensated, which generally account for about 6%-10%, thereby making aggregated DSM disadvantaged when compared to generation by between 14%-18%.

While there are clearly swings and roundabouts when assessing this approach (winning on some and losing on others) the variance is too large to make this a viable measurement method without the possibility of adjustments.

Energy Response believes that if we are to move away from RD we need to adopt one or more measurement methods that are more reflective of true benefit/value provided in real time. These methods should be clear and unambiguous, and provide an equitable outcome compared to a generator of similar size. Overall these changes are likely to severely impede on the levels of Reserve Capacity to be supplied by DSM aggregators and will potentially lead to higher costs for the entire WEM. The proposed changes will work counter to the Market Objective of treating each technology equally. As can be seen from the results of our own portfolio above, there will be a substantial cost impact on Energy Response in having to make up the difference in capacity.

Issue 5: Capacity Cost Refunds

While Energy Response generally agrees with this proposed change, greater thought needs to be given the definition of "Forced Outages". Forced Outages for generators is a relatively easy concept to understand, however when applying the same concept to NDLS it can be quite confusing.

It is also essential to consider what happens when a site is permanently or temporarily unable to provide DSM. As an aggregator we would be keen to see a mechanism to exchange an obsolete NDL for a new NDL as quickly as possible. In many ways this reflects a generator with multiple units where one unit suffers a catastrophic breakdown and is required to be replaced with an entirely new unit. Preferably such updates can be done at any time, so that NDLs can exit a DSM program at any time.

Our proposed changes will make DSM measurement closer to the measurement of equivalent generation and bring greater transparency to the provision of DSM in the market. As such these suggestions will not increase costs for Energy Response but will enrich the Rules bringing them closer to the Market Objectives.

Issue 6: Reserve Capacity Security

As described in response to Issue 2, Energy Response agrees to this change. However, we are concerned that the mechanism to return the security deposit is less than ideal. The security deposit should be released at the time when the DSM aggregator declares the facility available for service and the IMO determines that the program has been completely filled. There is little point in having the facility available for service on 1 August (or 1 June in the future) and the facility not tested for several months after that date, at which time the security deposit can be released.

Delays and uncertainty related to the release of security deposits would create considerable cost and credibility issues with our financiers, which would reflect poorly on the WEM and discriminate against DSM aggregation.

Issue 7: Stipulated Default Loads

Energy Response supports this change.

Issue 8: Potential Double Payment

Energy Response supports this change.

Energy Response wishes to acknowledge the work undertaken by the IMO in putting this proposed rule change together. This is a complex rule change and it is evident that there has been a good deal of forethought and detailed restructuring of the rules undertaken. We wish to reiterate that as an overall comment these changes are positive for DSM and the market as a whole. We also acknowledge that these changes will impact DSM aggregators and their ability to meet Reserve Capacity targets, therefore it is important that the areas of concern that we have identified are addressed.

I would like to take this opportunity to thank the IMO for all their hard work in 2010 and look forward to working with you all in 2011.

Yours sincerely,

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

Michael Zammit
Managing Director