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14 July 2000

Mr Michael Rawstron  
General Manager  
Regulatory Affairs - Electricity  
Australian Competition & Consumer Commission  
PO Box 1199  
Dickson ACT 2602

Award Gold  
Australian Quality Award  
for Business Excellence



Dear Mr Rawstron

**Pre-Determination Conference - VoLL, Capacity Mechanisms and Price Floor**

I refer to the draft determination released by the Commission on 21 June 2000 in respect of the applications for authorisation (Nos A90711, A90712 and A90713) of amendments to the National Electricity Code. It is noted that a conference in relation to the draft determination is to be held on 18 July.

Integral Energy remains concerned with the proposed increases to the level of VoLL, concerns which have been previously communicated publicly.

There are, however, additional factors present which merit the Commission re-considering the proposed phased introduction of new levels of VoLL in the draft determination. These factors have become apparent subsequent to the preparation of the application for authorisation.

**Delayed Commencement of Full Retail Competition**

The level of demand side participation in the National Electricity Market is low. It is the contention of NECA and the Commission that the proposals will encourage greater demand side participation and demand management. There has been a clear indication by NECA and the ACCC that the proposed phased introduction took into account the existing vesting contract and franchise tariff arrangements. This is a clear acknowledgment that these issues directly impact on the development of demand side participation.

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It is generally accepted that franchise load is a major impact on demand patterns which culminate, on occasions, in high price events. Experience in the National Electricity Market has confirmed that franchise load is particularly volatile and has been the cause of periods of peak demand. It is also clear that franchise load is not price sensitive. This, together with the large flat load profiles of non-franchise customers, results in retailers experiencing considerable difficulties developing demand side response capability. Whilst the existing high levels of retailer load continues to be represented by franchise customers, the ability of retailers to manage that risk through demand management will be very limited. Increasing the level of VoLL will not result in any meaningful signals being given to the retail market.

The application in September 1999 by NECA to the Commission for the phased introduction took into account the then current jurisdictional Full Retail Competition (FRC) timetables. Those timetables in NSW and Victoria were as follows:

- NSW – from 1 January 2001, and
- Victoria – on 1 January 2001.

The form and extent of the introduction of FRC in these large jurisdictions remain unclear. The only certainty is that FRC is delayed, and the introduction of FRC to residential customers will be further delayed.

The consequence of this is the continuation of a very significant part of the retail market not being price sensitive for a period far longer than could have been envisaged by NECA and the ACCC when preparing the proposals. In these circumstances, the proposed timing of the phased introduction of VoLL is based upon outdated and incorrect information. There is considerable merit in altering the timing of the phased approach to more accurately reflect the likely FRC timetable.

### **NECA Demand Side Survey**

In March 2000, NECA launched a survey of demand-side activity in the National Electricity Market. That survey was designed to:

- establish a database of retail demand-side programmes and initiatives and customer involvement in the National Electricity market,
- determine the likely trends for future involvement of the demand-side in the National Electricity Market, and
- discover customer attitudes, incentives, expectations and support for new retail demand-side products.

The results of this survey are not available to the market at present. The information would be of assistance to the market and deliberations of the Commission. It is recommended that this information be made available immediately to the Commission for the purposes of ensuring that all available information is considered.

### **Recent Experience in the National Electricity Market**

It is Integral Energy experience in the market to date that it is particularly to develop meaningful demand side response capability from the non-franchise load customers. In circumstances where the response capability has been required to be activated, the non-franchise loads have proven insensitive to the market signals. It is submitted that this experience is mirrored throughout the retail market.

### **FRC Market Structure**

At the time of the application for authorisation being lodged with the Commission, the market structure for FRC was unknown.

It remains under review, with the likely approach in the short term to be manually read interval metering followed by a metering and settlement solution of net system profiling. This likely design will result in a continuation of the current situation of customer load which is not price sensitive. Accordingly, the currently proposed timing of phased increases in the level of VoLL is inappropriate. The retail market remains in an immature state and should be permitted to develop over a longer period with the existing level of VoLL.

Yours faithfully



Karen Waldman  
**Acting Chief Executive Officer**