

19 December 2012

Mr Drew Clarke  
 Chair, Standing Council of Energy and Resources  
 Senior Committee of Officials  
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 CANBERRA ACT 2601

FROM THE OFFICE OF THE  
 CHIEF EXECUTIVE OFFICER

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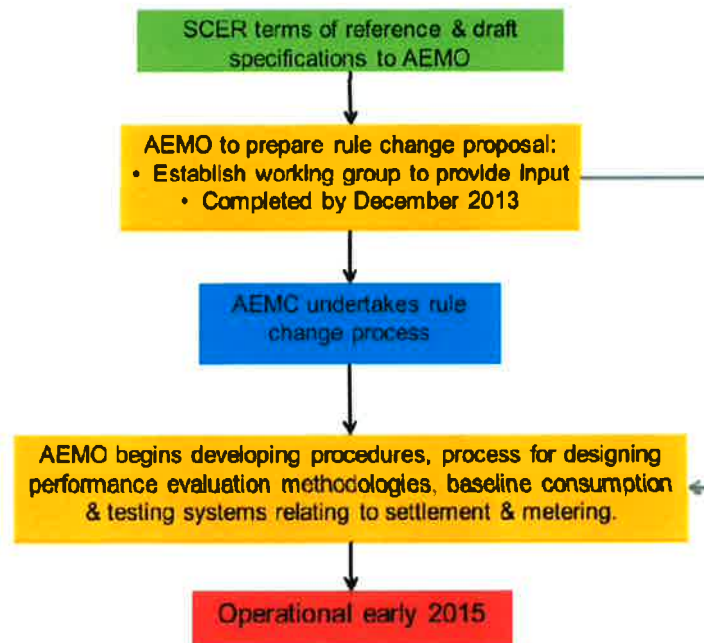
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*Drew,*  
 Dear Mr Clarke

**Implementation of Demand-Response Mechanism (DRM) and new category of market participant**

In the final report of its Power of Choice review, the AEMC recommended implementation of a DRM and a new category of market participant in the NEM. A detailed implementation plan is also provided in the form of a draft Terms of Reference to AEMO<sup>1</sup>. This plan allowed approximately 1 year for AEMO to develop a high level design and submit a Rule change proposal to the AEMC, with the assistance of an industry working group. It then allows a year for the rule change to be made, and the necessary systems implementation.



AEMO considers this to be an appropriately ambitious implementation plan, allowing enough time to develop a workable high level design and for the resulting rule change to be properly tested against the market objective. Its timelines will require AEMO to perform some implementation work in parallel with the AEMC’s making of the rule change.

<sup>1</sup> See Part 6 of Draft Specifications <http://www.aemc.gov.au/Market-Reviews/Completed/stage-3-demand-side-participation-review-facilitating-consumer-choices-and-energy-efficiency.html>

In proposing an early 2015 operational target, the AEMC is understood to have anticipated that the SCER would be in a position to endorse these Terms of Reference and request AEMO to carry them out by the end of 2012. However, since the report was released on 30 November 2012, we note that:

- The COAG Energy Market Reform-Implementation Plan from its 7 December meeting contains a recommendation that the DRM should be progressed in order to be in place by July 2014. AEMO considers this date incompatible with the process described by the AEMC, as it allows insufficient time for completion of the design, regulatory approval and implementation phases of work.
- The SCER communique of 14 December gives in-principle support to the Power of Choice wholesale market recommendations and indicates that the SCER should develop terms of reference for development of the DRM and new category of participant. It has not however proposed using the AEMC's part 6 of the Draft Specification for the Terms of Reference.

As discussed above, AEMO considers that the two year timeline is necessary to deliver the existing Terms of Reference. Any delay in endorsing the Terms of Reference beyond the end of December 2012 should be reflected in consequential adjustments to the delivery targets and if an alternative implementation plan is to be developed, the necessary timeframe would need to be assessed, taking into account AEMO's views regarding systems implementation issues.

For further discussion, please contact David Swift, Executive General Manager Corporate Development, on (08) 8201 7371 or [david.swift@aemo.com.au](mailto:david.swift@aemo.com.au).

Yours sincerely



Matt Zema  
**Managing Director and Chief Executive Officer**

cc: John Pierce, Chairman, Australian Energy Market Commission