



Consultation on wholesale demand response mechanisms

AEMC invites submissions on consultation paper

The Australian Energy Market Commission has commenced consultation on three rule change requests which propose various mechanisms to facilitate wholesale demand response in the National Electricity Market. Submissions are due on 21 December 2018.

Overview of the rule change requests

The Commission has received three rule change requests seeking to facilitate wholesale demand response:

- On 31 August 2018, the Public Interest Advocacy Centre (PIAC), Total Environment Centre (TEC) and the Australia Institute (TAI) submitted a rule change request seeking to introduce a mechanism for wholesale demand response.
- On 18 October 2018, the AEC submitted a rule change request seeking to introduce a register for wholesale demand response.
- On 21 October 2018, the South Australian Government submitted a rule change request seeking to introduce a mechanism for wholesale demand response. It also sought to introduce a separate, transitory market for wholesale demand response.

The consultation paper published on 15 November 2018 covers all three rule change requests.

Background

In July 2018, the Commission concluded its *Reliability frameworks review*. In the final report, the Commission made a series of complementary recommendations, which aimed to support increased demand side integration into the wholesale market:

- The implementation of a voluntary, contracts-based short-term forward market.
- Permitting consumers to engage multiple retailers/aggregators at the same connection point.
- Recognising demand response providers on equal footing with generators in the wholesale market and as such, being able to more readily offer wholesale demand response in a transparent manner.

The three rule change requests covered in the consultation paper relate to the third recommendation.

What is demand response?

Demand response is likely to play an increasingly important role in the future of the national electricity market (NEM), notably as an alternative to peaking generation.

There are different types of demand response: wholesale, emergency, network and ancillary services, as shown in the table below.

Table 1: Four types of demand response in the NEM

TYPE	DESCRIPTION	CURRENT STATUS
Wholesale demand response	Demand response used to change the quantity of electricity bought in the wholesale market, which could be used to manage spot price exposure, or to help market participants manage their positions in the contract market.	Due to the lack of transparency around how much wholesale demand response is currently being utilised, it is difficult to draw firm conclusions about how much demand response is occurring in the NEM, or whether this level is efficient. Wholesale demand response is the subject of these rule change requests.
Ancillary service demand response	Demand response employed for providing ancillary services. For example, responding quickly to brief, unexpected imbalances in supply and demand by participating in the frequency control ancillary service (FCAS) markets.	Large energy users have used demand response to provide FCAS. Market ancillary service providers (MASPs) can offer customers' loads into FCAS markets. Currently, there are two MASPs using demand response to provide FCAS.
Emergency demand response	Demand response employed by the system operator during supply emergencies, with the service being centrally dispatched or controlled to avoid involuntary load shedding. This is generally provided by out-of-market reserves.	Demand response can – and currently is – participating in the Reliability and Emergency Reserve Trader (RERT). The Commission is currently considering ways to enhance the RERT through its consideration of AEMO's rule change request on enhancing the RERT.
Network demand response	Demand response employed to help a network business to provide network services to consumers.	The existing regulatory framework provides a number of incentives and obligations for non-network options (including demand response) to be adopted by a network service provider where it is efficient to do so.

Issues the rule change requests are seeking to address

Through these rule change requests, the rule proponents are seeking to address:

- there are various reasons why retailers may not offer demand response products, including that vertical integration may limit a retailer's interest in offering demand response
- the interaction between most consumers and the wholesale market is managed directly by a retailer, and so if the retailer doesn't offer a demand response product consumers have no incentive to change their consumption
- difficulties for third party demand response providers in providing demand response products to consumers, either because of commercial barriers to enter the retail market, or difficulties gaining and maintaining the value of wholesale demand response.

In addition, the Commission has outlined a mechanism for compensating consumers in the event of reliability related load shedding. This mechanism is a possible option that may help incentivise an efficient level of demand response and could complement other changes to the regulatory framework to enable consumers to undertake demand response.

Facilitating wholesale demand response has the potential to lower wholesale prices and help manage the supply-demand balance at a lower cost. In order for these benefits to be realised, it is important that demand response is facilitated in the least cost way. The benefits of facilitating demand response needs to be weighed against the associated costs and implications of any mechanism that would be introduced.

Issues for consideration

The Commission has set out a range of issues for consideration in the consultation paper including:

- the nature and extent of the issues raised in the rule change requests
- the role of baselines in wholesale demand response
- the inclusion of embedded generation and energy storage
- thresholds for participation in a wholesale demand response mechanism.

Stakeholders are encouraged to comment on these issues as well as any other aspect of

the rule change requests or the consultation paper, including the proposed assessment framework set out in the consultation paper.

Timing and approach

The Commission will be considering the best approach to progressing the three rule change requests in a timely manner following stakeholder consultation. Given the complexity and broad scope of the issues covered by the rule change requests, the six month standard rule making process may need to be extended.

Submissions

The consultation paper and the rule change requests are available on the AEMC website. Alongside this consultation paper, the Commission has published a template for stakeholder responses. Stakeholders may elect to use this template when preparing a submission. Stakeholders are invited to make written submissions in response to issues raised and the rule change request by **5pm, 21 December 2018**.

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