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Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

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### **Proposed Rule change – Demand Response Mechanism**

Dear Mr Pierce

The South Australian Government proposes amendments to the National Electricity Rules and National Energy Retail Rules (the Rules) to facilitate a demand response mechanism in the wholesale electricity market.

We consider that the Rules should be amended to promote greater opportunities for consumers to participate in wholesale demand response. This will result in increased competition in the wholesale electricity market which may potentially contribute to a decrease in prices and improved reliability in the electricity market.

A key challenge in increasing the level of demand response currently is that the interaction between most consumers and the wholesale market is directly managed by a retailer. If the retailer doesn't offer demand response products or provide a direct signal of the wholesale price, consumers would have no incentive to change their consumption as they would have no signals to do so.

The wholesale electricity market has changed considerably since a demand response mechanism was last considered. The increase in intermittent generation and reduction of dispatchable generation strengthens the need for demand response to contribute to reliability and efficient wholesale electricity price outcomes.

The South Australian Government considers creating a mechanism that transparently transfers the value of the wholesale demand response to a consumer will create competition in the offering of demand response products and unlock demand response potential.

The proposal therefore introduces a new market participant category, known as a "Demand Response Service Provider" (DRSP). This participant would be the only participant class that is able to sell demand response into the wholesale market through this demand response mechanism.



Government  
of South Australia

We consider the demand side will play an integral role in the future of the NEM. Demand response providers should be able to be recognised on equal footing with generators in the wholesale market and so being able to more readily offer wholesale demand response in a transparent manner to AEMO. The role of the demand side in the wholesale market would be much more prominent under the proposed Rules, resulting in a genuine two-sided market. Amendments should be made to the Rules to enable this to occur.

Our Government has committed to reducing energy prices and ensuring a reliable grid. We are also committed to rewarding customers for managing their own demand. We consider that the introduction of a demand response mechanism in the wholesale electricity market would support the achievement of these commitments.

The Government notes these matters were raised in the Commission's Retail Frameworks Review and have been proposed in separate rule change proposals requested by the Public Interest Advocacy Centre, the Total Environment Centre and The Australia Institute.

Integrating demand response into the wholesale market is a critical component of facilitating the energy sector transition and so we consider this issue should be progressed by the Commission as soon as possible. We do however recognise that establishing this model may take time. The South Australian Government's proposal therefore includes consideration of an additional market to be established to operate as a transitional measure, prior to the commencement of the complete model.

I enclose further detail to our request. Should you have any questions in relation to this proposal, please contact Ms Rebecca Knights, Director - Energy Policy and Projects, Energy and Technical Regulation Division of the Department for Energy and Mining on (08) 8429 3185 or at [Rebecca.knights@sa.gov.au](mailto:Rebecca.knights@sa.gov.au)

Yours sincerely

A handwritten signature in blue ink, appearing to read "Dan van Holst Pellekaan".

**Hon Dan van Holst Pellekaan MP**  
Minister for Energy and Mining

21 / 10 / 2018



# **Demand Response Mechanism**

## **Request to change the National Electricity Rules and the National Energy Retail Rules**

**October 2018**

## **1. Name and address of rule change proponent**

Hon Dan van Holst Pellekaan MP  
South Australian Minister for Energy and Mining  
Level 17, 25 Grenfell Street  
ADELAIDE SA 5000

## **2. Description of the proposed rules**

The proposal seeks to provide the necessary flexibility in the National Electricity Rules and National Energy Retail Rules (the Rules) for the Australian Energy Market Operator (AEMO) to facilitate a demand response mechanism in the wholesale electricity market.

The proposed changes to the Rules will ensure efficient wholesale electricity costs by allowing generators and demand response to compete on equal footing. It will also increase reliability through more scheduled and dispatchable resources and greater transparency for forecasting.

The South Australian Government considers creating a mechanism that transparently transfers the value of the wholesale demand response to a consumer will create competition in the offering of demand response products and unlock demand response potential.

We consider that demand response providers should be able to be recognised on equal footing with generators in the wholesale market and so being able to more readily offer wholesale demand response in a transparent manner to the Australian Energy Market Operator (AEMO). Amendments should be made to the Rules to enable this to occur.

The wholesale electricity market has changed considerably since a demand response mechanism was last considered. The increase in intermittent generation and reduction of dispatchable generation increases the potential for demand response to improve reliability and efficient wholesale electricity price outcomes.

Our Government has committed to reducing energy prices and ensuring a reliable grid. We are also committed to rewarding customers for managing their own demand. We consider that the introduction of a demand response mechanism in the wholesale electricity market would support the achievement of these commitments.

Integrating demand response into the wholesale market is a critical component of facilitating the energy sector transition and so we consider this issue should be progressed by the Commission as soon as possible.

We do recognise however that establishing a Demand Response Mechanism may take time. The South Australian Government therefore propose that an additional market be established to operate as a transitional measure, prior to the commencement of the complete model.

### **3. Background to the proposed rules**

Historically, the demand side of the market has been passive in its involvement in the wholesale market. However, this is changing as consumers are becoming increasingly capable and willing to actively participate. Technological improvements are also making it easier for consumers to participate.

The potential for demand side to contribute to market outcomes has been illustrated through the ancillary services unbundling and emergency demand response pilot being undertaken by AEMO and the Australian Renewable Energy Agency (ARENA).

The Finkel Panel recommended that the Commission undertake a review to recommend a mechanism that facilitates demand response in the wholesale energy market. In the final report of its Retail Electricity Pricing Inquiry, the ACCC also recommended that a mechanism for third parties to offer demand response directly into the wholesale market should be developed.

The ACCC noted in their report that it supported the development of a mechanism for third parties to offer demand response directly into the wholesale market, due to the potential to limit the need for additional generation and the potential to put downward pressure on price. They suggested that opening the wholesale market to third parties that specialise in the provision of demand response services and that have identified market opportunities without the need for incentive payments is more likely to result in an efficient level of these services being provided. It also noted that retailers would continue to be able to develop demand response products themselves or partner with third party providers if they wished.

The Commission already proposed a package of recommendations that seek to remove barriers to demand response in its Reliability Frameworks Review (RFR) Final Report. These recommendations provided a range of additional tools for parties to undertake wholesale demand response, while preserving the market-based arrangements in the NEM that allow for flexible and resilient frameworks.

The RFR recommendations sought to facilitate demand response in the wholesale market, by removing potential restrictions to providing wholesale demand response and provide more tools to help the demand side attain more price certainty ahead of real time.

These recommendations did not lock in a particular type of demand response, but instead left it open for different types of demand response to be provided in the wholesale market in the future from new technologies and new business models.

### **4. Nature and scope of the issues the proposed rules will address**

Key challenges for optimising demand response in the wholesale market are:

- The interaction between most consumers and the wholesale market is directly managed by a retailer. If the retailer doesn't offer demand response products, or provide a direct signal of the wholesale price, consumers have no incentive to change their consumption.

- Consumers may be unable to manage their demand at all times, limiting their ability to take advantage of offerings that provide a direct signal of the wholesale price.
- No mechanism for portfolio demand response, limiting offerings for consumers who may not be able to respond on all occasions they are called to respond by a retailer.
- Vertical integration may limit retailers' interest in offering demand response.

Under current arrangements wholesale demand response is market-driven demand response used to change the quantity of electricity bought in the wholesale market in response to wholesale prices, or to help market participants manage their positions in the contract market.

Under the current rules, to provide wholesale demand response, a consumer must:

- be exposed to the wholesale price for electricity, either directly or through an intermediary; or
- be called by a retailer to provide a demand response; and
- must be able to change their exposure by changing their level of consumption in response to price.

This means that the current rules create a market in which it is extremely difficult for many energy consumers to gain value from their demand response capacity without the agreement of their retailer. Retailers are incentivised to utilise demand response where it is efficient to do so however, they may opt not to. This can be due to the fact that established retailers may not have the experience to utilise wholesale demand response.

The other options available to retailers when managing wholesale risk, such as entering into derivative contracts or generating electricity with their own assets, may be seen as a cheaper and less complex options compared to engaging in wholesale demand response.

Furthermore, the current rules can create a disincentive for retailers to undertake demand response. The payback period for setting up demand response services can be significantly longer term than the terms of a retail contract. Engaging a consumer to provide wholesale demand response has upfront and ongoing costs such as the costs of engaging customers, explaining what demand response is, installing necessary equipment and agreeing to conditions. Under the current rules if a customer subsequently changes retailer, the retailer that helped them to set up their demand response capabilities is exposed to the risk of not recovering their costs.

There are also challenges for third parties wishing to provide wholesale demand response under the current framework. They can only do so by either becoming a retailer, or by having a commercial relationship with one.

These third parties may want to be able to sell demand response in the wholesale market without focussing on the typical role of a retailer, such as managing and hedging a retail portfolio. They may not have the capabilities to perform these functions. Retailing electricity also require registering and meeting the prudential and consumer protection requirements set out in the NER.

Even having a commercial relationship with a retailer could pose problems for a third party wishing to provide wholesale demand response. If a consumer switches retailer to one that the third party didn't have a commercial relationship with, this could expose the third party to risk.

Consumers also face challenges in finding suitable demand management arrangements.

Currently arrangements are generally on a one-to-one basis. A financial penalty may be associated with failing to respond to a call by a retailer and significant financial risk is associated with failing to respond to high wholesale prices.

If a consumer cannot guarantee their demand response whenever they are called to respond, retailers will often not offer a demand response product.

It is generally only larger consumers that have these arrangements available to them. Whilst technology is enabling small consumers to manage their demand, they are currently offered little incentive or reward for demand response.

There is also little transparency of demand response products. This inhibits consumers ability to request, assess and decide on the merits of demand response products.

Previously stakeholders argued that rule changes associated with network pricing and competition in metering would result in incentives and reward for retailers to facilitate consumer demand management. There is little evidence that this outcome has been realised.

## **5. How the proposed changes would address the issues**

This rule change proposal would address current issues by introducing a transparent mechanism, open to all consumers, that would facilitate demand response from third parties in the wholesale market.

The rule change allows the demand side to be better integrated into the wholesale market. The active role of the demand side in the wholesale market would be much more prominent, resulting in a genuine two-sided market. The demand side will therefore play an integral role in the future of the NEM.

### *Registration, classification and accreditation*

The proposal is for a new market participant category to be introduced. This would be known as a "Demand Response Service Provider" (DRSP). This participant would be the only participant class that is able to sell demand response into the wholesale market through this demand response mechanism.

A DRSP would need to register with AEMO in a process similar to registration as a Market Ancillary Service Provider. Eligibility for registration would require the DRSP to demonstrate its intention to classify load as demand response load within a reasonable period of time.

Following registration, the DRSP would need to classify loads as 'demand response loads'. This may require systems changes to facilitate the classification, and potentially

a process for assessing the resources that are being aggregated.

Depending on the party setting the baseline, as discussed below, classifying a load as a demand response load may also involve providing AEMO with information for the purposes of determining the baseline.

The DRSP would also be required to demonstrate its ability to comply with the relevant parts of the NER prior to registration.

Some consumers will require a new meter to participate in demand response. To ensure metering is not a barrier to participation, the DRSP could be made responsible for arranging a new meter with the metering coordinator in these circumstances.

The retailer would not be able to opt out on behalf of its customers, so retailer participation in the mechanism would be mandatory.

### *Wholesale market participation*

In order to promote reliability outcomes, it is preferable that demand response is scheduled.

This is because it would provide AEMO with visibility of the quantity of available demand response, which would contribute to reliability outcomes, as well as providing greater transparency to the rest of the market of the intention of demand side resource to respond to wholesale prices. It would also provide for better risk allocation by placing more operational obligations on the DRSP.

Loads being aggregated for participation in FCAS markets are effectively scheduled for the purposes of providing FCAS. As such, for a DRSP to participate in the mechanism, it should have an aggregate capacity above the threshold at which resources can be scheduled in the wholesale market, being 5 MW.

The DRSP should be able to aggregate the load of any sized customer to make up the 5MW.

While this proposal is not seeking to restrict the size of the demand response load, we consider it would be preferable for it to form part of an aggregate portfolio that could be scheduled.

### *Bidding/information provision*

A DRSP would also be required to submit bids into the wholesale market. These bids will appear in pre-dispatch and ST-PASA and therefore would be visible to the market. The bids would inform forecasts of price such that they reflect any scheduled demand response. However, as the DRSP would have limited control over the operational decisions being made by a consumer, this information may not be as accurate as the information submitted by generators into pre-dispatch and ST-PASA.

It is proposed that the DRSP would be subject to the same obligations regarding information provision as other scheduled generators, apart from MT-PASA e.g. pre-dispatch and ST-PASA.

In this way the demand response bids would be accounted for in pre-dispatch prices and other market participants would be able to factor this into operational decisions. It would also provide transparency to AEMO regarding the quantity of price responsive load. Considering that it is likely the DRSP would only be dispatched for demand response during high price periods, it would be able to bid unavailable dispatch intervals where it does not anticipate offering demand response.

When the DRSP intends to be dispatched, it would be required to submit its availability and price/quantity offers.

It is anticipated that the DRSP would only be responsible for submitting offers for the quantity of demand response – the difference between the baseline consumption and the projected/ actual consumption. These quantities would be equivalent to the amount of ‘generation’ the DRSP is offering.

### *Dispatch*

We consider that the DRSP would be dispatched in the same manner as a scheduled generator. If its offer to reduce demand is cleared through the wholesale market, it would be dispatched to reduce consumption by the amount it is cleared for.

The consequences of not meeting dispatch would therefore be consistent with the dispatch targets for scheduled generators. Compliance with dispatch would be assessed by the AER and the DRSP may be required to pay costs such as FCAS causer pays costs.

Depending on the nature of the load, it would have ramp rate constraints on how quickly it is able to ramp up (turn off load) and ramp down (restore load). Each DRSP may have a range of customers with different ramp rates. The Commission should give consideration to whether a DRSP would be able to bid at a certain quantity with a certain ramp rate at a certain price, and another quantity with a different ramp rate at a different price.

### *Settlements*

Each NMI for a demand response load aggregated by a DRSP would have two data streams attributed to it for periods where the DRSP is scheduled to provide wholesale demand response. These would be the baseline load for each trading interval as determined using the relevant methodology, and the demand response (the difference between actual metered load and the baseline load).

The baseline load would be attributed to the FRMP through settlements (and therefore billed to the consumer) and the demand response would be attributed to the DRSP as generation. Both parties would pay/be paid the wholesale price for the trading interval in which the demand response occurred.

### *Baseline*

A key consideration in introducing the proposed demand response mechanism in the wholesale electricity market is the setting of a baseline. The baseline would be used to determine the extent and value of any demand response. The SA Government understands the complexity involved in establishing a baseline. There are issues

associated with setting an incorrect baseline, and also be risks that may be imposed on parties not participating in demand response, depending on how the baseline was to be determined.

Given the complexities involved, the SA Government considers that the Commission should establish a set of high level principles which could be used when setting a baseline. These could include principles that a baseline methodology must:

- Be flexible, to enable change as necessary over time. Perhaps best located in a Guideline rather than Rules;
- Consistent across participants;
- Limit the opportunities for gaming;
- Be verifiable; methodologies used should be transparent, to allow an understanding of all inputs and independent verification of results; and
- Places risk on the parties best placed to manage the risk.

### *Consumer Protections*

The DRSP must be subject to appropriate consumer protections when dealing with consumers.

Small consumers should:

- Receive adequate information to make an informed decision about demand response participation.
- Consent to demand response participation.
- Have the right to withdraw and termination rights.
- Be provided with regular remittance advice and payment for their demand response service.

There should be a clear complaints and dispute resolution process, with the Australian Energy Regulator responsible for compliance. Small customers should have the ability to approach an energy ombudsman for assistance.

Whilst life support customers should not be excluded from demand management, special protections will be required to ensure their life support equipment is not put at risk in such arrangements.

### *Transitional arrangement*

Recognising that establishing a Demand Response Mechanism may take time, the South Australian Government propose that the Commission consider the introduction of an additional market to operate as a transitional measure, prior to the commencement of the complete model. This additional market would enable the benefits of the mechanism to be realised sooner.

AEMO would be responsible for operating the transitional market. The objective would be to meet electricity demand in the most cost-efficient way. As such, the transitional market would need to be co-optimised with the energy market. Retailers would be responsible for costs associated with the market, which they would be able to smear

across their electricity users. It would work off a baselining methodology, however, not require any change to the way the wholesale electricity market is operated or settled. The settled price of the transitional market would be separate to the wholesale electricity market - similar to how ancillary markets operate in the national frameworks today.

## **6. How the proposed rule will or is likely to contribute to the achievement of the National Energy Objective and the National Energy Retail Objective**

Under section 7 of the National Electricity Law (NEL), the National Energy Objective (NEO) states:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

The aspects of the NEO relevant to this rule change proposal are the promotion of the efficient use of electricity services for the long term interests of consumers with respect to price of electricity and reliability of electricity and of the national electricity system.

The SA Government considers that the proposed Rule will contribute to the achievement of NEO because it:

- increases competition in the wholesale electricity market; and
- increases reliability through additional scheduled and dispatchable resources.

The rule change proposal promotes greater opportunities for consumers to participate in wholesale demand response. This will result in increased competition in the wholesale electricity market which may have the effect of potentially decreasing prices.

Further, in many instances, wholesale demand response can more efficiently contribute to reliability than building new generation. It is also proposed to be scheduled and dispatchable, providing the opportunity to cover the intermittency of generation entering the wholesale electricity market. By providing a mechanism that enables consumers to more effectively respond to prices, consumers will choose the level of consumption based on their willingness to pay. In a tight supply/demand balance, high prices would encourage an active demand-side to reduce consumption and maintain the reliability of the power system.

## **7. Expected costs, benefit and impacts of the proposed rule**

### *Benefits*

The SA Government considers that allowing third parties to sell demand response into the wholesale market would have benefits including:

- enabling energy consumers to actively participate in determining outcomes in the wholesale market;
- placing downward pressure on wholesale electricity prices;

- improving the reliability of the power system; and
- providing greater transparency of the demand side to other market participants.

The proposed amendments provide consumers with greater opportunities to participate in wholesale demand response and may have the effect of potentially decreasing prices in the wholesale market.

The proposal would be applied to aggregated small customers, and would therefore provide more opportunities to small consumers who have had fewer opportunities to participate in wholesale demand response previously.

Increased participation of demand response in the wholesale electricity market could deliver significant benefits to energy consumers through various means. Demand response by individual energy consumers will maximise those energy consumers' utility by reducing their consumption of electricity during periods when the price of energy exceeds the utility of energy consumption. The deployment of demand response may also benefit all energy consumers by substituting for the use of higher-cost forms of capacity and therefore lowering energy prices. The potential deployment of demand response (whether it is actually deployed or not) will increase competition in the wholesale market and reduce the potential for generators to exploit market power during periods of tight supply-demand balance, resulting in greater economic efficiency and lower prices for consumers.

Further, in many instances, wholesale demand response can more efficiently contribute to reliability than building new generation.

This is particularly true when a tight supply-demand balance is only forecast to occur for a short period of time. By providing a mechanism that enables consumers to more effectively respond to prices consumers will choose the level of consumption based on their willingness to pay. In a tight supply/demand balance, high prices would encourage an active demand-side to reduce consumption and maintain the reliability of the power system. The proposal will therefore not only have a positive impact on wholesale prices, but also may improve reliability in a more efficient manner, thereby reducing the need for potentially inefficient generation investment.

Therefore, by unlocking the potential for wholesale demand response in the NEM the SA Government considers this rule proposal could increase both reliability and affordability of electricity. Increased levels of demand response will potentially raise the volume of low-cost dispatchable capacity, giving consumers more control, increasing competition and displacing the dispatch of more expensive forms of capacity.

The proposal will also provide greater transparency of demand side participation to other market participants, which will help market participants to make more efficient decisions in both operational and investment time frames on both the supply and demand side of the market.

Increased transparency of demand response for AEMO will also contribute to efficient operation and management of the wholesale electricity market. AEMO will be able to better forecast demand and supply, as well as power flows across the system.

The introduction of an additional market as a transitional measure, prior to the commencement of the complete model, may also enable the benefits of the mechanism to be realised sooner.

### *Costs*

While it is considered preferable that demand response should be scheduled in the wholesale market, the costs of this requirement may need further analysis.

It is unclear what impact the proposal would have on market participants systems, including to AEMO's settlement systems, and the costs associated with potential system changes. This would be a cost impact that the Commission should assess.

There may also be systems costs associated with enabling a portfolio of small customers to participate in the proposed mechanism. There may be a number of challenges in aggregating small customers that the Commission will need to consider.

As the Commission noted in its RFR, generators in the wholesale market currently provide SCADA information to AEMO to indicate generation levels within a dispatch interval. As the actual extent of the demand response is not known until actual consumption has been determined and compared against the baseline, a DRSP cannot provide the same information to AEMO as a generator would.

The DRSP would, however, be required to provide estimates of the amount of demand response dispatched at the end of each dispatch interval. This would be used by AEMO to potentially adjust the amount of demand response that the DRSP is scheduled for in future dispatch intervals.

While this proposal offers the benefits discussed above, it also has an element of complexity that will need to be addressed as these recommendations are progressed further. As a result, issues in relation to associated costs will need to be explored further. As too will consideration of an appropriate baseline methodology, as discussed above.

A proposed transitional model may also increase the cost impact. The Commission could consider making retailers responsible for costs associated with the transitional market, which they would be able to smear across their electricity users, until such time as a full model is established.

## **8. Potential impacts of the proposed changes on those likely to be affected**

### *Consumers*

As mentioned above, for those consumers able to participate in the wholesale market, demand response allows them to decide, at any point in time, if the value to them of services enabled by the supply and consumption of electricity is greater or less than the costs of supply at that time.

By allowing additional parties to provide demand response, and so promoting competition, the proposed amendments provide consumers with greater opportunities to participate in wholesale demand response. This would also have the effect of potentially decreasing prices in the wholesale market, as discussed.

The proposed arrangements provide the consumer with the choice of participating in wholesale demand response irrespective of their retail arrangements. It would therefore not be contingent on a retailer opting in on behalf of its customers.

The proposal would be applied to aggregated small customers, and would therefore provide more opportunities to small consumers who have had fewer opportunities to participate in wholesale demand response previously.

In relation to the customer – retailer relationship, the proposal relies on the retailer retaining responsibility for purchasing the customer's baseline consumption from AEMO and the customer in turn paying the retailer. This arrangement would need to be defined contractually, and existing customer contracts may not accommodate it. It would need further consideration to understand how the contract is likely to be characterised and regulated.

The extent to which the NERL or NERR applies when the customer is paying at the baseline (i.e. paying for electricity it has not consumed), and whether consumer protections in the NERR need to be enhanced for small customers entering into these arrangements should be considered. Amendments to the NERL and NERR may therefore be required to support this proposal.

### *Third Parties*

The RFR recommendations sought to address the aspects of the market that may currently restrict the opportunities available to consumers. To provide more choice to consumers, it is important that parties other than the existing retailers can be provided with opportunities to provide demand response offerings to consumers.

It is expected that there would be costs associated with installing equipment or changing systems to schedule the demand response, for these third parties, as noted above. However, the benefits would be significant.

### *General market impacts*

As mentioned, the proposed changes would also provide benefits by improving the reliability of the power system. In many instances, wholesale demand response can more efficiently contribute to reliability than building new generation. This is particularly true when a tight supply-demand balance is only forecast to occur for a short period of time.

Further, under the proposal demand response would be classified as scheduled therefore facilitating greater transparency about demand side participation in the market, providing further benefits to AEMO and the rest of the market. This would assist market participants to make more efficient decisions in both operational and investment time frames on both the supply and demand side of the market.

It is unclear however, what impact the proposal would have on market participants systems, including to AEMO's settlement systems, and the costs associated with potential system changes. This would be a cost impact that the Commission would need to assess.

There may also be systems costs associated with enabling a portfolio of small customers to participate in the proposed mechanism. There may be a number of challenges in aggregating small customers that the Commission will need to consider. These include consideration of the appropriate level of SCADA required for participation in the wholesale market, given that it would be prohibitive to require all participants to provide to AEMO. Applying a baseline to a diverse collection of individual customers so that their retailers can be attributed their baseline consumption would also need to be considered, as mentioned above. There may also be impacts on transmission and distribution constraints and loss factors when accounting for geographic dispersion of demand response that need to be considered.

As discussed in the RFR and ACCC Retail Electricity Pricing Inquiry, adverse impacts on networks, particularly distribution networks, of orchestrated demand response would also need to be accounted for. The impact may not be any worse than that of a single large consumer providing demand response, however, there may be reduced visibility of network impacts when demand response is from aggregated small consumers. Participation in wholesale and network demand response may be complementary, however there are coordination issues to consider in optimising the use of demand response across different markets. For example, wholesale peaks will not necessarily coincide with local network constraints, and the use of demand response from customers within a distribution network may impose costs on the network to manage changes in electricity flows.

## **9. Stakeholder consultation**

This rule change proposal is based on recommendations from the Reliability Frameworks Review. As the Commission has conducted significant consultation as part of this Review, and as a number of submissions were supportive of the approach, no further consultation has been undertaken on this rule change proposal.