



Wholesale demand response – Technical working group

Meeting 1

22 March 2019

The first working group meeting was held in Sydney on 22 March 2019. The attendees of the meeting are listed below.

Member	Organisation
Mark Byrne	Total Environment Centre
Bridgette Carter	Bluescope
Dan Cass	The Australia Institute
Nabil Chemali	Flow Power
Chris Cormack	AEMO
Emma Fagan	Tesla
Joel Gilmore	Australian Energy Council
Lance Hoch	Oakley Greenwood
Craig Memery	Public Interest Advocacy Centre
Troy McKay-Lowndes	Energy Queensland
Rob Murray-Leach	Energy Efficiency Council
Ben Pryor	ERM Power
Jenessa Rabone	AGL
Claire Richards	Enel X
Jon Sibley	ARENA
Georgina Snelling	EnergyAustralia

The AEMC's project team attended and is listed below.

Name	Position
Suzanne Falvi	Executive General Manager – Security & Reliability
Victoria Mollard	Director – Security & Reliability
Declan Kelly	Adviser – Security & Reliability
Mitchell Shannon	Adviser – Security & Reliability
Tom Walker	Senior Economist
Lily Mitchell	Senior Lawyer

All enquiries on this project should be addressed to Declan Kelly on (02) 8296 7861.

The AEMC has formed the working group to provide advice and input into the progression of the three rule change requests relating to wholesale demand response:

- *Wholesale demand response mechanism* (ERC0247)
- *Wholesale demand response register mechanism* (ERC0248)
- *Mechanisms for wholesale demand response* (ERC0250).

At the start of the meeting the 'competition health warning' from the AEMC's competition protocol for the working group was read out, and copies of the protocol (attached) were given to each member of the working group.

The policy team provided a recap of the approach taken to considering the rule changes, as it was presented at the recent public forum. In addition members were taken through a 'mind map' of the approach to the issues raised by the rule change requests, to provide context for the policy areas that would be discussed at the meeting . A copy of the 'mind map' is attached.

The meeting focussed on four policy areas: 1) cost recovery for demand response under a mechanism; 2) whether or not there is the potential to reduce barriers for energy service providers who wish to become retailers that are more focussed on demand response products; 3) the differences between large and small consumers, and the corresponding impacts on the the value proposition for wholesale demand response; and 4) the concept of physically separating demand responsive loads behind a connection point..

The following points were made at the meeting:

AEMC's approach to rule changes

- The project team outlined the proposed objective for the rule charge requests that will frame the discussion on the day:

To facilitate wholesale demand response to achieve net benefits, without undermining the wholesale market.

- It was explained that undermining the wholesale market refers to distorting the price signal conveyed by the wholesale market, and not increased competition.
- Some participants commented on the need to outline the key principles which guide the project objective in more detail. Participants suggested that they could send through suggestions for discussion at the next technical working group meeting. The project team agreed to starting the next technical working group with a discussion of relevant principles that the rule changes should achieve,.
- It was noted that the different options being considered to address the project objective are not mutually exclusive – and there could be a range of solutions. Participants also suggested that a range of different ideas could be brainstormed as additional ways to facilitate demand response. Participants also agreed to send through any suggestions ahead of the next technical working group.

Cost recovery options for a mechanism

- The project team gave an overview of the key cost recovery mechanisms to pay demand response providers for demand responding:
 - transferring the value that accrues to a retailer when a customer demand responds to the party who is responsible for the demand response (proposed under the demand response mechanism)
 - recovering costs from across the whole market (proposed under the separate wholesale demand response market)
 - the customer gaining from the avoided wholesale costs (the current arrangements)
- Some participants noted that under the current arrangements, consumers have limited ability to negotiate demand response contracts with retailers, which will impact as to what "value" those customers can obtain from demand responding in a bilaterally agreement. This is especially true for small consumers.
- Participants raised concerns regarding how a number of other obligations placed on retailers would operate if retailers were billed for baseline consumption in the wholesale market (as proposed in some of the mechanisms). Such obligations include energy efficiency schemes, environmental certificate obligations and potential requirements under the retailer reliability obligation, where obligations are based on a parties actual consumption.

- Parties operating in the market noted that most of these methods would involve changing IT and billing systems and so incur costs – although there was a spectrum of significance of the size of the changes and so the associated costs. There was commentary from group members suggesting that the nature and extent of costs each mechanism would impose on market participants need to be better understood. However, it was also noted that quantifying these costs is difficult and resource consuming without knowing the detail of any proposed policy approach, which would affect the nature and extent of any necessary changes.
- It was noted that, where possible, complexity should be allocated to parties who are able to address that complexity. For example, if a mechanism is going to be applied to small consumers, the complexities associated with settlement should be addressed by the retailer and/or demand response seller.
- Participants considered it would be useful to investigate how demand response is valued in overseas energy-only markets. The project team noted that it has engaged a consultant to undertake an international review of wholesale demand response mechanisms, which will be published on our website and discussed at a future technical working group meeting.

Reducing barriers for energy service providers to become retailers

- The project team discussed whether or not there were ways to reduce the obligations on parties who wished to become retailers and focus on retailing demand response products.
- Participants agreed that since demand response involves interfacing with a customer, those parties should be subject to consumer protections and there was no justification for lessening any of the consumer protection obligations placed on demand response providers operating as authorised retailers.
- In addition, participants generally did not consider that any requirements on parties to become a retailer should be reduced since it is unlikely to result in a material increase in offerings of wholesale demand response. Participants did note that reviewing this could be *part of* a broader solution, however.
- It was noted that new entrant retailers appear to be most likely to deliver innovative retail products. It was also noted that some of these companies have struggled to meet the prudential requirements for registering as a retailer and further investigation of how this could be addressed may be useful.
- Participants also agreed that increasing competition in the retail market could lead to greater availability of wholesale demand response services to consumers.
- It was noted that there may be merit in incentivising the establishment of “white label” retailers to facilitate wholesale demand response. A white label retailer is a company that takes on the various obligations associated with traditional retailer services and thereby provides a platform for other businesses without a retailer authorisation to offer bespoke retail products to consumers.
- Some participants agreed that reducing existing regulatory barriers may be more appropriate under a framework that allows for physical separation of load.

Physically separating demand responsive load

- The project team provided an overview of some of the issues associated with physically separating demand response load behind a connection point. This is otherwise known as multiple trading relationships.
- Participants expressed a range of views on whether the introduction of multiple trading relationships through the physical separation of load behind a connection point would facilitate new products and services for demand responsive subsets of load. There were suggestions that this could work well for large, discrete loads – although these loads would likely just absorb the costs of installing separate meters or rewiring. It was noted that some loads are more difficult to physically separate than others.

- Participants discussed potential metering arrangements and noted that some worked well for distributed energy resources but not for demand response or demand management.
- It was noted that the allocation of network tariffs where there are multiple FRMPs behind a connection point, as well as the costs this proposal would impose on DNSPs, are issues which need to be considered in more detail.
- Participants agreed that there may be some benefits to considering this proposal alongside other mechanisms due to potential synergies in implementation.
- It was noted that the implementation of multiple trading relationships will need to be considered as part of a future rule change if it is not dealt with under this project.

The differences between large and small consumers and the value proposition for wholesale demand response

- The project team gave an overview of the differences between different types of consumers in the context of wholesale demand response, and how these impact on the value those consumers attribute to wholesale demand response.
- Participants noted that generalised distinctions should not necessarily be made between consumers of different sizes. Rather, the focus should be on the characteristics of a particular consumer. However, it was also noted that the value of wholesale demand response increases in line with its firmness and dispatchability, which may differ between different categories of consumer.
- It was also noted that small customers can be aggregated into a portfolio to provide certain services.
- Some participants noted that large customers generally do not like ceding direct control over the entirety of their load to their retailer, depending on whether the customer has embedded generation.
- It was agreed that there are significant difficulties with attempting to measure the existing levels of different types of wholesale demand response in the NEM. Participants considered that there would be value in investigating whether AEMO's demand side participation portal is capable of distinguishing between different types of wholesale demand response, and whether more information from this could be made public.
- It was noted that consumers may express particular motives for engaging in wholesale demand response but act in a different manner when called upon to provide demand response.
- Participants noted that there are a number of other benefits of wholesale demand response which should be considered, including the potential for improved system security and reliability and the ability for wholesale demand response to substitute for peaking generation.

Next steps

- The project team thanked participants for their time and noted that the group will be convened again in approximately 4 weeks.
- It was also noted that a variety of other issues were raised throughout the day, which were noted down for discussion at future technical working group meetings.

Australian Energy Market Commission

Demand response technical working group protocol

Context and purpose

The AEMC is establishing a technical working group with energy industry members to discuss issues arising from the 2018 demand response rule change requests (available on the AEMC website under ERC0247, ERC0248, ERC0250).

The Working Group is committed to complying with all applicable laws, including the *Competition and Consumer Act 2010 (CCA)*, during these discussions. Breach of the CCA can lead to serious penalties for members and for individuals involved in any breach (including large financial penalties and potentially also imprisonment for key individuals involved).

This Protocol governs the way in which Working Group discussions will proceed, and the Working Group agrees to adhere to this protocol in order to ensure compliance with the CCA.

Key principles

The purpose of this Working Group is solely to discuss issues relating to potential demand response mechanisms. Each member **must make an independent and unilateral decision** about their commercial positions and approach in relation to the matters under discussion in the Working Group.

This Working Group **must not discuss, or reach or give effect to any agreement or understanding*** which relates to:

- **pricing** for the products and/or services that any member supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies etc).
- **targeting (or not targeting) customers** of a particular kind, or in particular areas.
- **tender processes** and whether (or how) they will participate
- any decision by members:
 - about the purchase or supply of any products or services that other members also buy or sell
 - to not engage with persons or the terms upon which they will engage with such persons (i.e. boycotting); or
 - to deny any persons access to any products, services or inputs they require.
- **sharing competitively sensitive information** such as non-publicly available pricing or strategic information including details of customers, suppliers (or the terms on which they do business), volumes, future capacity etc
- **breaching confidentiality obligations** that each member owes to third parties.

* An “understanding” does not have to be formal; a “nod and a wink” is enough if one party commits to act in a particular way.

Communication & meeting guidelines

Members must ensure that **all communications** (including emails and verbal discussions) adhere to the Key Principles. All meeting between Working Group members should be conducted in accordance with the following rules:

- Agree and circulate an agenda in advance of each meeting. The content of each agenda should not include anything that could contravene the Key Principles set out in this Protocol, and try to avoid “any other business” agenda items.
- Ensure all members understand ahead of the meeting that any competitively sensitive matters must be subject to legal review before any commitment/agreement can be given.
- The below ‘competition health warning’ is read and minuted at any meetings or conference calls:
 - Attendees at this meeting must not enter into any discussion, activity or conduct that may infringe, on their part or on the part of other members, any applicable competition laws. For example, members must not discuss, communicate or exchange any commercially sensitive information, including information relating to prices, marketing and advertising strategy, costs and revenues, terms and conditions with third parties, terms of supply or access.*
 - For any new attendees – please note that participating in these discussions is subject to you having read and understood the Protocol including the Key Principles. If you have not yet done so, please do so now.*
- Accurate minutes are kept of all meetings, including details of attendees.
- If something comes up during a meeting that could risk contravening any Competition Laws, attendees should:
 - Object immediately, and ask for the discussion to be stopped.
 - Ensure the minutes record that the discussion was objected to and stopped.
 - Raise concerns about anything that occurred in the meeting with their respective legal counsel immediately afterwards.
- Any decision about whether, and on what terms, to engage with customers and suppliers is an independent and unilateral decision of each member.