

What demand response happens now in the wholesale market?

Big energy users are able to turn down, turn off or move their energy use to later. Consumers can change how much energy they demand in many ways including signing up for a time-of-use tariff that encourages lighter loads during peak times.

Providing wholesale demand response has been difficult to date because consumers need to be technically equipped to respond (e.g. advanced metering and control over consumption), as well as needing a 'signal' to respond to. Most consumers elect to not respond to wholesale prices themselves, and instead a retailer typically manages these price signals on their behalf. Not all consumers have access to demand response.

As the sector continues to transform, we are increasingly seeing more variability, not only on the supply side (with more weather dependent generation), but also on the demand side. Increases in solar PV, the uptake of batteries and electric vehicles, will increase the need for more information to be provided by the demand side.

What will change if the proposed rule is made?



Opening up the market

Consumers would be more easily rewarded for choosing to turn down or turn off their electricity at peak times. Consumers would negotiate what they get paid directly with their retailer or the third party.

Under the proposed mechanism these third parties, demand response service providers, could then sell demand reductions into the wholesale market as a supply-side resource. They would operate in a similar way to scheduled generators and be able to set lower wholesale prices.

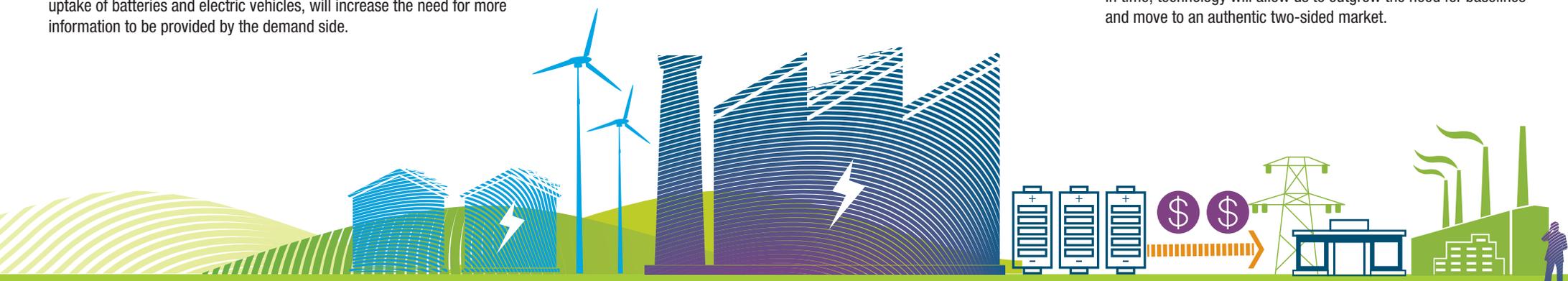


Valuing wholesale demand response

The value of 'demand response' would be determined against a baseline quantity to be set by the market operator. Because it is impossible to know exactly what energy would have been used at any given time, the baseline quantity must be estimated.

The framework under the draft rule makes AEMO responsible for determining the baseline, which provides greater certainty while also allowing for innovative approaches to be developed over time.

In time, technology will allow us to outgrow the need for baselines and move to an authentic two-sided market.



Issues for consultation

The draft rule released for consultation seeks to minimise implementation costs

AIMS

Avoid increased costs associated with retailer billing systems

Avoid disruption to existing AEMO settlement systems (and associated costs)

Avoid imposing risks on retailers which may lead to increased charges

Maintain consumer protections for small customers (households and small business)

Recommending more to complement the mechanism

APPROACH

Allow retailers to continue billing customers based on actual consumption

Timing implementation to occur progressively until after changes to allow for 5-minute settlement are finalised

By establishing a centralised benchmark and associated compliance regimes

No change to retail rules until a comprehensive review of the appropriate energy-specific consumer protections

AEMC to review interaction between wholesale price settings and demand response. Retailers to facilitate demand response through Energy Charter. AER updating comparison website Energy Made Easy.

Next steps

NOW UNTIL 12 SEPTEMBER
consultation

14 NOVEMBER
final rule

JUNE 2020
review of NECF complete

MARCH 2021
DSP portal

JULY 2021
five-minute settlement commences

JULY 2022
final implementation