



Wholesale demand response mechanism – draft determination and draft rule workshop #1 16 August 2019

The Commission held the first workshop on the *Wholesale demand response mechanism* draft determination and draft rule on 16 August 2019. This workshop was focussed on retailer specific issues.

The organisations represented are listed below:

Organisation
AEMO
AER
AGL Energy
Aurora Energy
CS Energy
Discover Energy
Enel X
EnergyAustralia
ENGIE
Ergon Energy
ERM Power
Flow Power
Infigen
Local Energy
Meridian Energy
Momentum Energy
Origin Energy
Property Council of Australia
Public Interest Advocacy Centre
Ready Energy
Red Energy
SIMEC Energy
Stanwell

Michelle Shepherd attended, as well as the AEMC's project team attended and is listed below.

Name	Position
Michelle Shepherd	Commissioner
Suzanne Falvi	Executive General Manager – Security and Reliability
Victoria Mollard	Director – Security & Reliability
Declan Kelly	Senior 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 or Declan.Kelly@aemc.gov.au.

At the start of the meeting Ms Shepherd provided an overview of the rule change process to date. Michelle noted that stakeholder feedback is an essential input into our decision-making, which is why the Commission has a range of avenues for engagement which including submissions, workshops, forums, technical working groups and one-on-one briefings.

It was also that that stakeholder input provided in these workshops has same importance in the decision making process as input in other forums, including the public hearing.

Prior to the first session, the relevant paragraphs from the AEMC's competition protocol for the working group were read out, and copies of the protocol (attached) were given to each attendee.

There were five sessions at the workshop:

- 1) The reimbursement rate and settlement process
- 2) Baselines and information provision to retailers
- 3) Implementation
- 4) Application of the mechanism to small customers
- 5) Other feedback.

For each session, AEMC staff provided a brief overview of the relevant aspect of the draft determination and draft rule. This was followed by an opportunity for attendees to ask clarifying questions about the draft rule. Following these discussions, attendees broke up into two groups to provide feedback on each aspect of the draft rule.

The settlement process and reimbursement rate

The project team provided a presentation on the approach taken with settlement under the draft rule. This included an explanation of the intent of the reimbursement rate.

Clarifying questions

Attendees asked for clarification on the following areas:

- The intent of the reimbursement rate. AEMC staff noted that the reimbursement rate is intended to allow retailers to recover the costs they would have recovered from their customers in the event that no wholesale demand response was dispatched i.e. their hedging costs. However, given the challenges and practical limitations with quantifying this number the draft rule specifies that the reimbursement rate would be calculated based on the load weighted average price. The AEMC noted that it was after feedback on the best way to calculate the reimbursement rate given the intent of it.
- Whether the reimbursement rate was intended to cover network costs. The AEMC staff clarified that it was not intended to include network costs.

Feedback session

- The reimbursement rate was not reflective of retail tariffs where the spot price is passed directly to the consumer. AEMC staff noted that the reimbursement rate is designed to operate effectively based on a traditional retailer model. The impact on other models (e.g. direct spot price pass through) is being considered in more detail.
- It was noted that if retailers were required to adjust retail contracts, there would be timeframes associated with renegotiating these contracts (which would need to happen prior to the rule being given effect).
- It was suggested that the reimbursement rate as set out under the draft rule would not keep retailers whole. This is because retailer costs are usually based on hedging costs which are more variable than the approach used in the draft rule. Attendees queried whether a more appropriate reimbursement rate could be determined by linking the calculation of the rate to forward curves of wholesale prices.

- Some attendees noted the need to maintain simplicity and transparency in the way the reimbursement rate is determined.
- It was noted that the Queensland Competition Authority is responsible for determining regulated electricity tariffs in Queensland and this process may provide insights relevant to the determination of the reimbursement rate.
- Attendees agreed that the changes to retailers' systems required to implement the proposed settlement model under the draft rule were minimised the impact of changes required.
- Some attendees noted that the approach taken under the draft rule was likely to result in lower costs being imposed on retailers when compared to the proposal set out in the rule change request submitted by PIAC, TEC and TAI.

Baselines and information provided to retailers

The project team provided an overview of the frameworks relating to the determination and use of baselines under the draft rule.

Clarifying questions

Attendees asked for clarification on the following areas:

- Whether retailers would have access to a customer's baseline when negotiating to sign up that customer. AEMC staff noted that retailers would be able to access the baseline methodology applying to that customer through MSATS.
- The testing regime applying to baselines. AEMC staff clarified that a customer's baseline will be tested for compliance with the baseline methodology metrics both:
 - when the DRSP is seeking to register the load
 - on an ongoing basis as determined by AEMO.

Feedback session

- It was suggested that retailers would need more information if they were able to manage the risks associated with paying at the baseline in the wholesale market. At the moment, a number of retailers use real time information to adjust their hedging position in the wholesale market. This includes knowing when a customer is being dispatched for wholesale demand response.
- It was also suggested that retailers would need more information when seeking to sign up a customer that has a relationship with a DRSP. In particular, attendees noted that retailers would need to be able to identify from the actual historical load for the customer when demand response was provided in order to factor this into their forecasts of the customer's load.
- It was queried whether retailers would have the ability to input into the process of agreeing the appropriate baseline methodology for a load.
- Attendees asked whether the baseline methodology that best meets the baseline methodology metrics under the draft rule should automatically be used.
- Some attendees noted that they would need to be able to understand whether their customer being dispatched to provide demand response would result in them shifting load to other times in order to manage their wholesale market exposure accordingly.
- It was asked whether AEMO could use sub-metered data when determining baselines.
- Some attendees noted that they would need to be able to understand whether their customer being dispatched to provide demand response would result in them shifting load to other times in order to manage their wholesale market exposure accordingly.
- Attendees queried how it would be assessed whether wholesale demand response is additional. For example, whether wholesale demand response could be provided at the same time as responding to network price signals.

Implementation

The project team asked for views from attendees on the implementation date in the draft rule. The wholesale demand response mechanism would commence on 1 July 2022 under the draft rule. It was noted that AEMO was considering the full extent of the systems changes needed under the draft rule and would advise the Commission if it would be able to complete necessary implementation work earlier than 1 July 2022.

Feedback session

- Some attendees noted that this timeframe seemed appropriate given the number of changes underway in relation to five-minute settlement, global settlement, the retailer reliability obligation and gas-day harmonisation.
- Some attendees also noted that it would be preferable to have greater certainty about how regulatory reforms would impact on systems changes. Greater certainty would allow retailers to better coordinate these changes and manage the associated resourcing costs.
- Some attendees queried the extent of the systems changes retailers would be required to undertake. It was noted that if there was a small number of customers participating, the impacts of retailer systems might be less substantial and could potentially be addressed manually.
- It was noted that certain aspects of the mechanism may be able to be tested in advance to potentially facilitate a staged implementation process.

Small customers

The project team noted that, under the draft rule, small customers would not be able to participate in the wholesale demand response mechanism. This is because the Commission considers it necessary to consider whether there should be energy-specific consumer protections applied when small customers are providing wholesale demand response through a third party.

Feedback session

- Attendees noted that there may be an opportunity to take learnings from the application of the mechanism to large customers. These learnings could then be applied before extending the mechanism to small customers.
- It was noted that accommodating small customers in the mechanism could impact on different retailer systems.
- It was also noted that it was implied in the draft rule that small customers would need to have an advanced meter in order to participate in the mechanism.

Other feedback

The project team asked attendees whether there are other areas of feedback that they would like to provide.

Feedback session

- It was noted that we might need to think how electric vehicles are treated, particularly as they can charge and export at multiple locations.
- It was queried what the impact of the mechanism set out under the draft rule would have on the reliability and emergency reserve trader.
- Attendees asked whether DRSPs would need to meet prudential requirements. AEMC staff clarified that the framework for determining prudential obligations for current market participants would be extended to DRSPs.
- Attendees asked how VPPs and/or distributed energy resources participate?

Close of day

The project team thanked attendees for their time and input. It was noted that this workshop was one of two; the second workshop will be held on 22 August 2019. It was also noted that submissions to the draft determination close on 12 September 2019.