



WDRM draft determination

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Key points

- Baselines \neq forecasts
- Cost of hedging high demand, high price events vs reimbursement rate
- Pool price pass through impacts
- Real-time notification
- Inter-relationship of rule changes



Baselines \neq forecasts

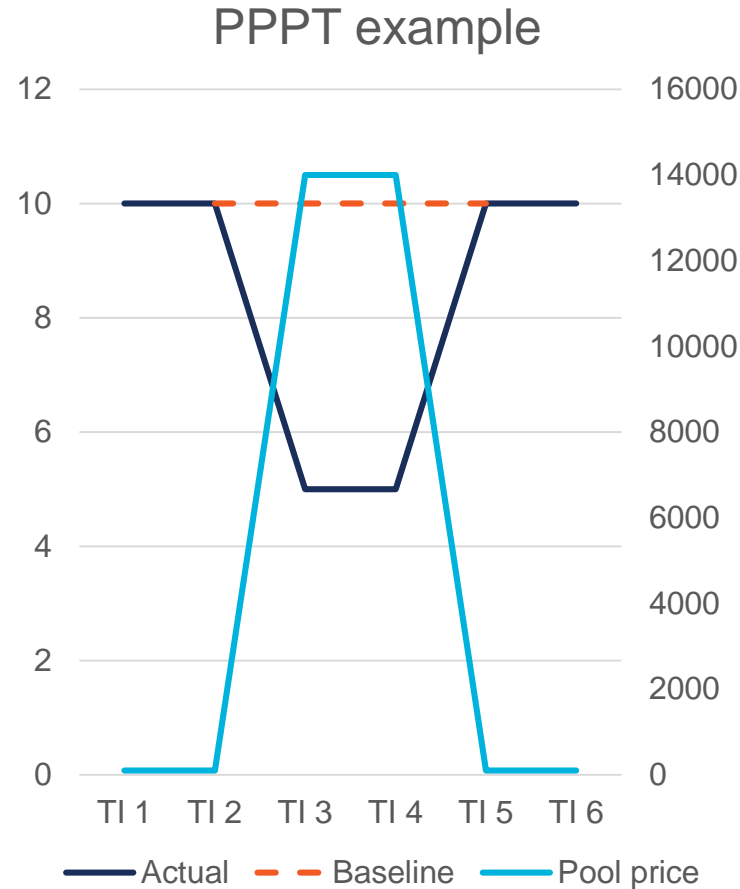
- Forecasts an estimate of entire portfolio of load. Minimises risk of individual loads.
- Baselines take out individual NMIs from that portfolio and apply a forecast to that individual load
- Any error in baseline imposes high cost, hard to manage risks on retailers.
- At this stage we don't know what an acceptable error for baselines is.
- Decision to dispatch or not dispatch DR changes risks for retailer.
- These risks extend to RRO compliance

Reimbursement rate

- DR likely to be dispatched at times of high prices and high demand
- Hedging is not static. Dynamic based on variables such as time, load, temperature, price expectations.
- Cost of hedging those peak periods is high. e.g. Vic Q1 2020 Q1 peak swaps \$213; Caps are \$46.
- Risk of high prices not equal across a day or quarter; in reality only a few hours (FY2019 Vic: 78 TIs \geq \$300)
- Cost is far higher to hedge these bespoke periods.
- Reimbursement rate assumes risk and price is equal across time.

Wholesale pool price pass-through

- Retailers don't hedge load of PPPT customers as there is no price or volume risk to be managed
- Customer currently gets benefit of reducing consumption at high prices.
- Under WDRM, double benefit for PPPT customers: they only pay for actuals then receive $(\text{Baseline} - \text{Actual}) \times \text{Pool Price}$
- Retailer bears cost of $\text{Baseline} \times \text{Pool Price}$ that they would never hedge for. Reimbursement rate fails to cover cost impact.



	Retailer pays	Customer pays	DRSP paid
Now	\$72,000	\$72,000	n/a
DRM (50/50 share)	\$141,500	\$72,000 - \$34,750 (DRSP) \$37,250 (net)	\$34,750

Real-time notification

- DRSPs “will have access to the baseline methodology for each of its wholesale demand response units. This will provide the DRSP with the information necessary to adjust dispatch offers with regard to expected settlement outcomes.”
- Retailers also need this to adjust portfolio and to understand impact on hedging.
- Retailers need real-time notification of availability and dispatch of any DR units in their retail portfolio to understand real-time impact and adjust hedging in short-term.



Inter-relationship of rule changes

- Sequential processes but inter-related impacts
 - 1 July 2019 – Retailer Reliability Obligation
 - 1 July 2021 – 5 minute settlement
 - 1 July 2022 – WDRM
 - 2022? – CoGaTI (Generator nodal pricing)
 - Post 2025: ESB's NEM review

