

16 September 2019



Mr Declan Kelly
Project Leader, Wholesale Demand Response Mechanism
Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By electronic lodgment: <https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Mr Kelly

RE: WHOLESALE DEMAND RESPONSE MECHANISM DRAFT DETERMINATION (ERC0247)

Aurora Energy welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC's) draft determination on introducing a wholesale demand response mechanism in the National Electricity Market (NEM).

Aurora Energy is a Tasmanian Government owned energy retailer, providing energy services to over 99 per cent of Tasmania's electricity customers. As a stand-alone retailer supplying over 279,000 Tasmanian residential and business customers, Aurora Energy's core focus is to generate value for its customers and the broader Tasmanian community.

Aurora Energy appreciates the work that the AEMC has done in preparing the draft determination, which recognises the real and legitimate risks of some approaches to demand response, and acknowledges the ways in which the AEMC has considered minimising the costs and risks of the implementation.

Aurora Energy supports there being a mechanism to ensure that retailers remain 'whole' by reimbursing the revenue that the retailer would have otherwise received from the customer should it have not provided demand response. While Aurora Energy acknowledges the need for simplicity and transparency in determining the reimbursement rate, this should not occur at the expense of this rate not being reflective of a retailer's foregone revenue.

A retailer's forgone revenue is ultimately reflective of the hedging costs that it expects to occur that form the basis of customer prices in retail sales agreements. These hedging costs are derived from forward futures contract markets. Given this context, Aurora Energy does not support the proposed approach to essentially use average wholesale spot prices over the past 12 months to calculate the reimbursement rate, as this bears no relationship to future hedging costs. Aurora Energy also considers that the reimbursement methodology should reflect the fact that hedging costs to retailers vary across time (i.e. as supply and demand varies over the year, month, week, or during the day).

Whilst it would be complex and impractical to have a reimbursement methodology that dynamically reflects hedging costs at a granular level, Aurora Energy suggests that an appropriate methodology would be to align the reimbursement rate to the forward contract market prices that form the expected hedging costs to retailers and are reflected as customer prices in retail sales agreements. These forward contract market prices are transparent and are available at a quarterly peak and off-peak pricing level that, in Aurora Energy's view, is sufficient to reflect a retailer's variations in hedging costs. The adoption of both a peak and off-peak reimbursement rate is encouraged as customers may have peak and/or off-peak rates in their retail sales agreements.

In this context, Aurora Energy proposes the following methodology for the settlement reimbursement rate.

- Average of the prompt (next) quarter ASX futures contract (or regulated wholesale contract price in Tasmania) over the previous 60 business days prior to the start of the quarter that the price is to take effect.
- Separate reimbursement rate to apply for peak and off-peak periods:
 - peak price to reflect ASX futures peak contract for the relevant quarter; and
 - off-peak price to be derived from the ASX futures Flat and Peak contracts for the relevant quarter.

Aurora Energy also understands that following the publication of the draft rule determination, interest has been shown in bringing forward the effective date for the rule change. Aurora Energy is of the view that the start date of July 2022 remains appropriate for the commercial and industrial (C&I) segment due to the amendments that will likely be required to retail contract terms and conditions. Given that the average contract term for C&I customers is approximately two years, sufficient time is required for these changes to be made to ensure that there are no unintended consequences associated with the rule.

For small customers, the interdependency of market settlement with AEMO's implementation of Global Settlements in July 2022 needs to be further considered prior to considering any amendment to the proposed implementation date of July 2022.

Aurora Energy also notes that the nature of market settlement for the small customer group varies depending on whether a customer has a basic or advanced (interval) meter. As basic metered customers are settled on a net system load profile, payment for demand response would create a cross subsidy across customers and retailers, as a retailer's settlement would still be based on the net system load profile (i.e. it would be impossible to apply a baseline). For this reason, Aurora Energy is of the view that any demand response mechanism for the small customer segment is conditional on customers having advanced meters.

If you have any questions regarding this submission please contact Hayden Moore, Strategy & Policy Manager at hayden.moore@auroraenergy.com.au.

Yours sincerely



Kane Ingham
General Manager People & Commercial Services