SUBMISSION

WHOLESALE DEMAND RESPONSE MECHANISM RULE | SEPT 2019

EUAA
Energy Users Association of Australia

INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

The EUAA is very supportive of the approach taken by the AEMC in its Draft Rule Determination of the Wholesale Demand Response Mechanism (QDRM). The facilitation of efficient demand response is a key part of ensuring a secure and reliable NEM as it transitions to a lower carbon generation mix as well as enabling all consumers, large and small, to have greater control over their energy costs. The Commission's Draft provides a very strong platform for eventually moving to a full two-sided market that we support.

Our members want more control over how they participate in the electricity market – how they can manage their supply and costs. They want the market framework to allow all sides of the market to respond to market signals – to avoid unnecessary network investment (whether new or replacement), to avoid forced supply interruptions because of a lack of generation capacity, to allow innovation as market participants seek new and efficient ways to better manage demand, supply and price.

We are very pleased to see previous perceived barriers to demand response eg the retail billing system, have been addressed with innovative market design in the Draft Determination. We see the focus now on detailed implementation issues, rather than a debate about whether demand response should be an integral part of the NEM that is provided by a range of providers in a competitive market. Nevertheless, we do not want to see administrative complexity as another barrier to, or delaying, implementation.

We focus on a few of the matters covered in the very comprehensive Draft. In summary we:

1. Note that there are significant challenges to many C&I customers to participate in demand response
2. Encourage the Commission to work with AEMO to see if the implementation data can be brought forward to earlier than 1st July 2022. If not, then consider the option of a staged introduction prior to that date
3. Support residential consumers being able to participate from the start for the portion of their load where existing consumer protections are considered acceptable
4. Make some suggestions around baseline calculation and the inclusion of C7I customers with spot price pass through contracts
5. Suggest that the Commission undertake a cost benefit analysis of developing a detailed reimbursement process given the size of the likely amount involved compared with the total NEM revenue flows.
6. Support the Reliability Panel considering the level of the Administered Price Cap and suggest some criteria for that analysis
7. Support inclusion in the Energy Charter of a measure of a retailer's commitment to WDR in the NEM.

The market should be realistic about the likely level of C&I demand response, at least initially.

Before making some specific comments on these matters we will comment on the position of our members as they seek to take advantage of the proposed changes.

The complexity of the changes will mean it may be some time before C&I customers are in a position to take advantage of them. Some may already be on contracts that include some level of demand response eg they offer DR in return for an overall lower price with the retailer effectively controlling how that DR is used. For these users, at the end of their current contract they will have an additional option ie other DRSP's looking to bid for their DR business, to optimise the revenue stream for their DR.

For other C&I customers who are not currently offering DR, they will have to do sometimes complex analysis to understand the implications of offering eg how will it impact the stability of my production process and my output targets? Will the uncertain benefits be worth it? How do I convince my Board this is worth taking the risk? Building that business case will take time. The Production Manager with a production KPI will have to negotiate with the Purchasing Manager with a cost KPI and the General Manager will have to balance the competing forces. How confident am I that I will be able to provide the DR when I have agreed with the DRSP to provide it? What if I cannot and I have exposure to a very high spot price that can quickly wipe out the gains?

Then there are others that may not be able to even consider offering demand response eg:

- They have a seasonal demand eg a food processing company that has to operate in the first quarter
- They have a sales commitment to deliver on a particular schedule and do not want to have damage to their reputation as a reliable supplier

It will very much be a case by case analysis.

If they can begin an analysis of the options, the business case analysis is going to have factor in the transactions costs eg obtaining a baseline, undertake a commercial negotiation with the DRSP. Many C&I customers do not have this expertise in-house.

While there will be DRSPs out there knocking on C&I doors seeking to convince them of the potential benefits, it could be a slow uptake as business need time to come to a proper understanding of whether their business can participate and obtain value that is worth the effort and cost.

SPECIFIC COMMENTS

1. Investigate bringing forward the implementation date

Given the advantages of the WDRM outlined in the Draft, we encourage the Commission to work with AEMO to see how the new Rule might be implemented earlier than the proposed 1st July 2022. We recognise that developing the implementation details will need to fit in with the otherwise extensive AEMO work programme. Perhaps there is an option of a staged implementation eg by customer size or by NEM region?

2. That residential consumers should be able to participate from the start

We agree with the submission from PIAC and other representatives of residential consumer advocacy groups that residential consumers should be able to participate at the same time as commercial and industrial consumers. This is not only because of the benefits to residential consumers, but also the additional overall market benefits that C&I customers will receive from household participation.

While we recognise the importance of ensuring consumer protections are in place, this should focus on the loads that can impact on a person's health and wellbeing eg air conditioners. Other demand sources eg pool pumps, household batteries and hot water systems, should be able to participate in DR from the start. Aggregation of these sources, which are collectively expanding at a considerable pace each year, could offer considerable value to the market. These should be part of the demand response market from day one, subject to DRSPs being signatories to the New Energy Tech Consumer Code (NETCC).

Work should concentrate on developing fit-for-purpose consumer protections for loads like air conditioning so that they can also participate as soon as possible.

Households are the main contributor to peak demand, and research by Energy Consumers Australia found more than half of household consumers were willing to voluntarily lower their energy use at peak times and even more were prepared to act with a financial incentive[1]. Delaying participation by these households is a missed opportunity. However, we would not want consideration of household participation delaying the start date for C&I customers.

3. Baseline

There is no perfect way to calculate the baseline. It will inevitably involve compromise at the same time as limiting the opportunity for gaming. We agree with the suggested criteria for evaluating a 'good' baseline and support the proposal that AEMO develop the baseline methodology guideline covering a range of methodologies which are then applied on a case by case basis.

We would support the ability of one company to aggregate NMI's across the one site. This could be the result of the commercial negotiation between the C&I customer and the DRSP. This provides benefits in reduced forecasting error. DRSPs should also have the flexibility to nominate DR from aggregated NMIs – there is a forecasting accuracy benefit from aggregation.

It is important that potential DR providers have the option of arguing for their own bespoke methodologies. However, we would see there may need to be a balance struck between AEMO adopting this innovation more generally and confidentiality on the commercial issues that led to developing the innovative methodology. Also, we wonder if there might be a perception that AEMO is both "judge and jury" in deciding whether an innovative methodology is acceptable. Perhaps there is a role for the AER as an arbitrator.

We encourage the Commission to closely consider the contribution of customers on spot price pass through contracts to increasing the level of in-market DR and reduce the risk of calling on expensive RERT. At the same time, we do not support "double dipping" of benefits or any unintended consequences such as retailers being left out of pocket.

We support the proposed compliance and enforcement role for the AER.

4. Some thoughts on the settlement process and the reimbursement rate

We congratulate the AEMC on the innovative approach it has taken to ensure there is no need to change retailers' current billing systems. Our comments here focus on how the reimbursement rate.

While we understand that retailers want to receive compensation for the level of DR supplied, we wonder how material it might be. Some simple examples – 1,000MW of DR for an hour at a reimbursement rate of $100/MWh is $100,000. That occurring 20 times a year give a total of $2m which compares with the total annual NEM revenue of nearly $17b in 2018. It would be helpful for the Commission to analyse the costs/benefits of using the reimbursement rate process to pay, say, $2m/yr.

One alternative worth considering is that the retailers recover that cost through their retail pricing. with the margin driven by competition rather than the reimbursement mechanism.

[1] Energy Consumers Australia (2019) "Energy reform to put consumers in driver's seat, but must be extended to households"

If the Commission did consider the costs are worth implementing the reimbursement process, then we suggest the Commission consider an alternative measure, such as the average of the daily settlement price for the prior 12 months of the ASX calendar year future base contract for the year in which the DR occurs.

This would allow a single reimbursement rate to be applied to any interval within the relevant calendar year noting that high prices and demand response may occur in either peak or off-peak periods depending on the supply and demand conditions that exist at the time. Removing the reimbursement rate, or having a single easily calculated reimbursement rate, will simplify the mechanism.

5. Review the level of the Administered Price Cap when there is large scale demand response

We agree that the implementation of the APC at $300/MWh might result in a lower level of demand response being bid into the market at a time of high prices and involuntary load shedding. However, a balance needs to be struck between:

- the benefits of additional demand response from any rise in the APC, and
- whether the rise in the APC will result in any additional generators offers that would offset the need for additional RERT

Even if there is additional RERT required and if not available, load shedding, these costs need to be balanced against the large wealth transfer to generators that would result from a rise in the APC. We support the Reliability Panel considering the application of the APC in a market where there is a much larger level of demand response.

6. Review the Energy Charter to incorporate a commitment to facilitate demand response

The EUAA is a founding member of the Energy Charter and a member of the Accountability Panel. Given the importance of demand response to our member's ability to control their energy costs, we look to retailers committing to facilitating greater access to demand response products and services for all their customers. The lack of progress on previous initiatives to introduce demand response have been perceived by consumers as vertically integrated retailers seeking to protect their position in the market.

As the Draft notes, given the Energy Charter's focus on:

> "embedding a customer-centric culture and conduct in energy businesses to create tangible improvements in affordability and service delivery".[2]

the review of the Charter following the first Evaluation Report in November 2019 should incorporate a commitment to the facilitation of wholesale demand response in the NEM.

Please contact me if you would like to discuss this submission further.

Sincerely,

Andrew Richards
Chief Executive Officer

[2] The Energy Charter p.1