

25 November 2019

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FROM THE OFFICE OF THE  
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Dear John

### **Supplementary Information – Wholesale Demand Response (WDR) Rule**

AEMO supports the role of demand side resources in markets and see this as a critical reform to facilitate efficient outcomes for energy consumers. AEMO has been consistent on this point throughout the WDR determination process and continues to acknowledge the important role demand side resources play now and into the future.

Our goal is to ensure we bring demand response into the market at the least cost and as soon as possible, including through the introduction of an additional participant category to recognise different business models in the energy market, leveraging the significant learnings from the AEMO/ARENA Demand Response trial and recently launched Virtual Power Plant trial.

At the same time, we consider it important that together we design a framework, for all customer classes, that eliminates as much as possible cost and complexity, and is enduring within the context of moving towards a two-sided market place in a timely manner. That two-sided market place design needs to consider the role of markets for other services – not only designing for peak shaving services but address other flexibility requirements – i.e. minimum demand, load shifting and load shaping to name a few.

AEMO has undertaken initial, indicative analysis on the implementation costs for the wholesale demand response mechanism, as outlined in the AEMC's draft determination. While AEMO understands the objective being achieved in the current design, it is likely to be more costly and complex than presented:

- AEMO will need to potentially build four new systems and amend 20 in order to meet the wholesale demand response proposal as outlined in the draft determination.
- AEMO has identified a range of costs indicating that there are several options available to meet the design requirement across many of the systems that need amendment, as well as building for the inclusion of small customers under the wholesale demand mechanism proposal.
- The initial cost estimate range between \$40m - \$95m, the range depends on the functionality requirements, the nature of customers offering demand response and the need to uplift systems to deliver additional features including a new registration capability linking customer loads to service providers, scheduling, baselining, portfolio management, and settlement between third parties and retailers.

- Some of these features and systems when implemented run the risk of being redundant or requiring significant modification, given longer term market design needs and hence could be a stranded cost – for example, a full flexible baseline system is somewhat of a transitional step that is necessary to support the peak shaving capability of demand response, but is unlikely to be a central feature of any two-sided market design. This further reinforces the benefits of taking a tactical and least-cost approach to WDR, however this will require further consideration by AEMC and AEMO on the most appropriate balance of policy priorities, sequencing of the reform work program, and industry implementation costs.

Further to this, on Friday, the COAG Energy Council sought advice from the ESB on a variety of urgent market design priorities, including advice on an ahead and two-sided market place through the Energy Security Board. Advice on a high-level design is expected by COAG Energy Council to be delivered by March 2020 with the detailed design and subsequent implementation to follow alongside considerations of the appropriate consumer protections (being progressed by the AEMC as part of its next retail competition review).

Noting the above, and the request from the proponents to bring forward the implementation of the wholesale demand response, we have been working to find a way to get large customers in faster and to get everyone else in under a design that eliminates some of the cost and complexity and is more enduring under a two-sided market design. AEMO propose a staged approach as follows:

- Simplify the existing design by enabling demand response to access the market without being scheduled with the aim to implement by mid-2021. We would make clear these arrangements are transitional with the intent of moving to scheduling arrangements under the two-sided market design.
- In parallel to this, design and implement an ahead and two-sided marketplace through the ESB process, as per the COAG EC request. It is critical this work provides for universal customer access to markets, and is expected to be timely and cost effective in its delivery.

We think this approach introduces demand response more quickly at least cost, avoids complexity, the costs involved and the need to open-up systems multiple times, given the various reform initiatives on foot and minimises stranding of investments. It also enables more timely universal access to markets. Given the above, AEMO welcomes the opportunity to work with the AEMC and industry to move this forward in a timely fashion. We consider that more time is needed to work through the detail of an alternative mechanism. AEMO will work with AEMC with the aim of developing a cohesive package on these matters.

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Yours sincerely



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