

14 September 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission

Submitted via the AEMC website.

Dear Ms Collyer,

Integrating price-responsive resources into the NEM

A proudly Australian company, Fortescue is a global leader in large-scale, ultra-efficient and highly complex developments. Fortescue has a strong focus on decarbonisation, evidenced by its industry leading target to achieve real-zero carbon emissions across our mining operations by 2030.

Through Fortescue Future Industries (FFI), we are establishing a global portfolio of renewable energy, green hydrogen production and manufacturing projects and operations that will position us at the forefront of the global green hydrogen industry. As a proudly Australian company, the Australian market is critical to our success in creating a sustainable green energy business supporting the decarbonisation of Australia and international partner economies.

Fortescue welcomes the opportunity to provide comment on the proposed addition of a 'scheduled lite' mechanism for simplification of demand side price-response. Fortescue recognises the need for increasing demand response in the market and supports the intent behind this rule change: increasing the visibility of price-responsive resources in the market. As noted, this rule change should be viewed alongside other reforms intended to maximise the benefit of consumer energy resources. Fortescue intends to submit a rule change proposal that is designed to incentivise price-influencing rather than price-responsive demand response volumes when this would reduce the cost of energy to the consumer – creating a two-sided market.

While Fortescue supports the intent of this rule change, we note that while the implementation is extremely well-considered, the incentive to participate in this voluntary scheme seems to be largely assumption driven. While it is noted that some incentive is likely to be needed – without a market mechanism, this runs the risk of being another out of market cost that may or may not be in the net interest of the average consumer. Moreover, the consultation paper does not address the Australian Energy Regulator's (AER) Value of Customer Reliability being consistently higher than the market price cap. Fortescue is concerned that the proposed rule change may provide a useful mechanism but may receive little uptake and therefore produce little additional value like the current wholesale demand response mechanism.

Thank you for the opportunity to comment on this consultation. Our responses to the consultation questions are provided below. As mentioned, Fortescue is planning to submit a rule change request proposing an alternative model. If you would like to discuss any of the issues raised in this submission or

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said alternative model, please contact tom.parkinson@fortescue.com or me at Nicholas.berry@fortescue.com.

Yours sincerely

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FORTESCUE



Responses to the consultation questions:

QUESTION 1: DO YOU AGREE THAT PRICE-RESPONSIVE RESOURCES NEED TO BE INTEGRATED INTO THE NEM?

Each identified issue is agreed, although emissions reduction is notably absent. As the power system moves to incorporate larger amounts of variable renewable energy, it is likely to impact price and reliability to an increased degree. Without well-defined incentives, it is likely that this rule change is expected to have minimal uptake and have minimal impact. However, a well-designed in-market response mechanism could notably improve both price and reliability. The other benefits will be comparably small.

QUESTION 2: REPRESENTING PRICE-RESPONSIVE RESOURCES IN SCHEDULING PROCESSES

If this rule change has no real incentive or benefit to the participant (other than possibly automated price response or a slight price improvement due to overall improved system efficiency, then it would be reasonable to include any information that a participant may be willing to share. The reliability (and therefore value) of the information could be determined over time by AEMO.

However, if this mechanism were combined with an incentive scheme that rewarded actions at times that they benefit the market, then it would be critical that the resources are able to be tested for compliance. This likely means that the responsive resources would need to be individually identified.

QUESTION 3: VISIBILITY MECHANISM - ENCOURAGEMENT TO PARTICIPATE

Options 1, 2 and 4 provide little real incentive to participate. Option 3 risks an arbitrary out of market payment that may result in a higher cost to the average consumer. Option 5 is really the only option that is likely to result in notable uptake. However, enforcing compliance is likely to be difficult and unlikely to be cost-effective. The issue here is that the 'visibility mode' essentially has little benefit and is unlikely to justify the additional complexity in the market rules.

QUESTION 4: ASSESSMENT OF VISIBILITY MODE

'Visibility mode' is unlikely to add much value due to limited uptake and limited ability to incentivise participation. Consequently, this mode is not likely to be valuable enough to justify the rule change. The only possible value is as a "steppingstone" to more advanced dispatch options. This is considered better managed through negotiation with AEMO and potential access to trial data and test systems rather than a need for a potentially costly and complex operational system.

QUESTION 5: DISPATCH MODE — INCENTIVES TO PARTICIPATE

As noted in the consultation paper, international experience has shown the main benefit of dispatched demand response is the ability to influence the clearing price. However, this benefit is likely to disproportionately benefit non-responders over responders.

The responder reduces their consumption, and thereby reduces their exposure to the market price. All other consumers benefit from the reduced price at full volume. This creates a "prisoners dilemma" situation where the incentive to act in the interest of the market is not sufficient to offset the cost of acting to the individual. The responder only really benefits if they also have a large amount of non-responsive demand that is spot exposed.

This is the fundamental issue with the rule change request – the incentive model is not sufficiently developed. The technical implementation may well be sound, but without a stronger incentive for participation it is unlikely to justify the rule change. Fortescue is preparing to submit a rule change proposal that may be complimentary with the mechanics outlined by AEMO but provides the market justification. Required participation is not supported.



QUESTION 6: ASSESSMENT OF DISPATCH MODE

Fortescue agrees with the Commissions assessment, the benefits would rely on participation and participation is uncertain. With greater incentives that reward behaviour in the overall interest of the market, it would be much easier to understand the likely benefits of participation and so much more likely to see increased uptake of the opportunity.

QUESTION 7: OTHER ISSUES RAISED IN RELATION TO THE SCHEDULED LITE MECHANISM

Introducing this as a principles-based rule is considered highly risky and the initial evidence already shows a strong focus on AEMO gathering information, but limited attempts to address why participants should want to engage. At this time, there is already sufficient work in the energy sector and need for market reform that introducing this kind of rule without a clear pathway to uptake is likely to be an unnecessary complication. If this rule change were to be adapted to incorporate a suitable market mechanism to reward demand response, such as the rule change that Fortescue is preparing, then it has a stronger case for implementation – but not as a principles-based rule.

Given the potential risk to consumers having their assets and energy use controlled via dispatch, it is agreed that any rule change would need to consider the potential impacts on consumers. This will depend on the final form of the rule change.

QUESTION 8: ARE THERE PREFERABLE ALTERNATIVE ARRANGEMENTS?

Yes. Fortescue has an alternative (supplementary) rule change proposal that provides much more focus on the incentives and less focus on the mechanism. Rather than going into detail here, it is recommended that this is considered in light of that opportunity. It is also recognised that Fortescue's rule change proposal is designed more in line with large-scale demand response from sophisticated operators that can afford to operate an operational scheduling desk. It is much stricter in its proposed implementation in order to ensure that the service that is being paid for is delivered.

QUESTION 9: ASSESSMENT FRAMEWORK

Agreed. It is important that potential uptake is considered as a key part of the overall assessment. If there is little uptake, the benefits may not justify the cost.