

11th October 2016

Veronika Nemes
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: ERC0186

Dear Ms Nemes

**Demand Response Mechanism and Ancillary Services Unbundling –
Draft Determination**

Snowy Hydro appreciates the opportunity to comment on the Draft Determination.

Demand Response Mechanism

Snowy Hydro supports the AEMC's decision to not make the Rule on the Demand Response Mechanism (DRM). Snowy Hydro agrees with the AEMC conclusion that the DRM is, unnecessary as there already exists many forms of market based demand side response and the Rule does not meet the National Energy Market Objective. Snowy Hydro agrees with the evidence and rationale presented by the AEMC for not implementing the DRM Rule change. The AEMC found¹:

- There are no barriers to the continued proliferation of demand response that is currently underway.
- The DRM does not result in overall savings to consumers through lower electricity prices because:
 - Spot prices as a result of the DRM will not reflect competition from demand response;
 - The DRM would result in costly changes to the wholesale market and retailer systems;
 - Demand response from the DRM will not necessarily alleviate network constraints and defer network expenditure ; and

¹ AEMC, Draft Determination, 1 September 2016, Summary section.

- The DRM will have unintended consequences and create distortions in the spot market and financial/derivative markets.

Ancillary Service Unbundling

The Ancillary Service Unbundling proposal may appear in theory to be beneficial but Snowy Hydro is concerned that the economic benefits are unlikely to exceed the costs of the Rule change. In particular we are concerned with the increased risks to Market Customers (ie. the Retailer) from the following²:

*“In addition, the Commission has included a new requirement before AEMO can approve an application to classify a market load as an ancillary service load. AEMO will need to be satisfied before approving an application that the market ancillary service provider has appropriate arrangements in place with their customers for the supply of FCAS services. **As noted above, such an arrangement between a retailer customer and the market ancillary service provider would sit alongside or ‘over the top’ of the customer’s retail contract with the Market Customer** (emphasis added). To maintain competitive neutrality, this new requirement will also be extended to apply to Market Customers. The objective is to avoid parties classifying spot market loads as ancillary services load without having an appropriate arrangement in place with the relevant market ancillary service provider or Market Customer (as applicable). It would also prevent market loads being offered an ancillary load into FCAS markets by differing participants. (p 72)”*

There needs to be a requirement for the Market Ancillary Service Provider to inform the Market Customer (ie. Retailer) that it has an arrangement in place for the provision of ancillary services from the Customer. The information given to the Market Customer must include at a minimum, the quantity and type of the ancillary service contracted and the duration of the contract. In the absence of this requirement, the Market Customer is in a difficult position whereby the actions of the Market Ancillary Service Provider may undermine its financial hedging position. This can arise because the ancillary services offered to the market by the Market Ancillary Service Provider may affect the energy consumed by the Customer thereby creating an imbalance in the Market Customer’s hedging volumes. This imbalance creates financial risks and uncertainty for the Market Customer which would ultimately be factored into increased risk premiums to manage the consumption profile of the Customer.

² AEMC, Draft Determination, page 72

Conclusion

Snowy Hydro strongly believes that the DRM was a complex solution looking for a problem that simply does not exist. The DRM was unjustified, distorts the current market design where both the supply and demand side have clear pricing signals/incentives to either produce or to consume energy, would impose significant implementation costs, distort the Contract/Financial markets and benefit a small group of large consumers at the expense of a much broader group of consumers. For these reasons, Snowy Hydro strongly endorses the AEMC decision to not make the DRM rule change as it fails to meet the NEM Objective.

The Ancillary Service Unbundling proposal may appear theoretically beneficial but we believe the economic benefits are unlikely to exceed the costs of the reform. In particular we are concerned with the increased risks and costs to Market Customers (ie. Retailers) from having to manage the volume risk of a Customer's consumption profile which can be modified due to the actions of a Market Ancillary Service Provider.

Snowy Hydro appreciates the opportunity to respond to this Draft Determination. Should you have any enquires to this submission contact me on kevin.ly@snowyhydro.com.au or on 0407224439.

Yours sincerely,



Kevin Ly
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