



Demand Response Mechanism and Ancillary Services Unbundling: Final Determination

The AEMC has issued a final determination on the rule change request to establish a demand response mechanism and unbundle the provision of ancillary services from the provision of energy. The final rule does not implement the demand response mechanism but adopts the COAG Energy Council request to increase competition in the ancillary services market.

The final rule

The AEMC has made a final rule that will provide for a new type of market participant – a market ancillary service provider - to offer appropriately classified ancillary services loads or aggregation of loads into frequency control ancillary service (FCAS) markets. Frequency Control Ancillary Services (FCAS) are procured by AEMO from market participants to keep power demand and supply continuously in balance. When system frequency is too low it is managed by increasing generation or decreasing demand.

The final rule will effectively unbundle the provision of ancillary services from the provision of energy. This will open up competitive opportunities to offer services to help the market operator, AEMO, control the frequency on the electrical system. Deeper and more diverse FCAS markets have the potential to lead to more efficient prices, minimizing the cost of these services.

Under the final rule:

- parties, such as retailers and third-party service providers will be able to register as a market ancillary service provider subject to meeting eligibility requirements. Registration will allow that provider to offer a customer's load, or an aggregation of loads into FCAS markets.
- a market ancillary service provider will be required to:
 - deliver FCAS service in accordance with AEMO's market ancillary services specifications just as any other market participant currently is required to do;
 - submit FCAS offers to the relevant FCAS markets in accordance with the provisions in the Rules.
- a market ancillary service provider need not be the customer's retailer. In practice, this may mean that while a customer has a retail supply contract with a retailer, a customer may also have a separate contract with a market ancillary service provider (who may be another retailer) to provide ancillary services.

These new arrangements will commence on 1 July 2017.

Why there is no need to implement the mechanism

COAG Energy Council's rule change request also proposed a mechanism allowing demand response to be settled through the wholesale market. The mechanism was considered necessary by the COAG Energy Council to address barriers to the demand side participating in the wholesale market.

In determining not to implement the requested mechanism, the Commission has found that it would result in a complex and costly framework to facilitate what can already take place, and that it would provide no extra benefit over and above current market arrangements beyond the redistribution of money between retailers, customers, and demand response aggregators.

The AEMC has determined that there are no barriers in the National Electricity Rules to demand side participation in the market today. The benefits of the requested mechanism can be achieved without the need for a regulatory mechanism in the wholesale market. The Commission acknowledges that demand response can be of benefit where it is an efficient form of market response to price signals. However, the proposed mechanism is costly, distortionary and adds little benefit to consumers, because the benefits of demand side participation can, and already are, accessible under current arrangements.

Market developments and innovation by demand side management service providers mean that large customers, retailers, demand side management service providers and network businesses can already negotiate commercial arrangements directly with one another and customers can access a relatively competitive demand management services market. Currently, there are at least 21 businesses that provide a variety of products and services across all major jurisdictions in the National Electricity Market. These businesses have evolved without a wholesale market mechanism and enable large customers to take advantage of their demand response capabilities.

There has been an increase in large customers opting to use demand response and demand side management service providers to manage spot price risk in the wholesale market themselves. There is a consistent view between retailers and demand side management service providers that this form of demand side participation is likely to increase in the future.

While the Commission acknowledges that there may currently be commercial reasons that complicate access to demand response for some consumers, implementing a market wide mechanism in the Rules, at considerable cost to all consumers, is not the appropriate vehicle to address these reasons. Nor would it encourage an efficient level of demand response.

The ability for consumers to exercise their demand response is also likely to increase as the market reforms commenced by the Power of Choice review, particularly those in relation to distribution network pricing and metering services which start to take effect during 2017.

Background

On 30 March 2015, the COAG Energy Council submitted a rule change request to create a demand response mechanism in the National Electricity Market, and unbundle the provision of ancillary services from the purchase and sale of electricity. The AEMC published a consultation paper to facilitate public consultation with stakeholders on 5 November 2015. Stakeholders provided 24 written submissions to this process.

For information contact:

AEMC Director, Veronika Nemes (02) 8296 0602

AEMC Senior Director Suzanne Falvi (02) 8296 7883

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

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