

10 December 2015

Ms Anne Pearson
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Dear Ms Pearson

RE: Consultation Paper – Demand Response Mechanism and Ancillary Services Unbundling

We appreciate the opportunity to respond on the AEMC's Consultation Paper – Demand Response Mechanism (DRM) and Ancillary Services Unbundling rule change.

AusNet Services currently deploys demand side solutions on its distribution network to maintain the network within operating capability and defer network augmentation. This includes both generation and demand reduction arrangements. Demand reduction is negotiated directly with customers. The regulatory regime requires Network Service Providers (NSPs) to consider non-network solutions and there are drivers for network service providers to deploy these solutions where they are most cost effective. It is unclear whether the establishment of the DRM rule would be beneficial or detrimental to network businesses in leveraging demand response arrangements. Naturally, DRAs will target the most valuable demand response payments, which may be in the wholesale market or from network service providers. However, as a result of these alternative markets, the availability of demand response for the networks when required may become less certain.

In principle, we see merit in the proposed DMR rule in facilitating the growth of demand response resources available through additional economic incentives. In particular, removing barriers to accessing real time 5-minute dispatch prices is likely to facilitate further innovation in the demand side participation. This incentive would drive customers to develop capability to respond with shorter response times measured in minutes and not measured in days, potentially becoming more valuable to networks.

Retailers also have demand response arrangements in place with customers. Network businesses have little visibility of these arrangements in terms of identifying these sites and quantifying the demand response activities being undertaken through retailer agreements. Unless we approach customers directly we have no knowledge of their potential demand response availability. The following aspects of the proposed DMR detailed design will provide improved transparency:

- Identification of the Demand Response Aggregators (DRAs) at the NMI level in MSATS, and
- Provision of confidential reports at the NMI level of events to the Local Network Service Providers (LNSPs) as soon as possible.

This detailed information would improve the ability of network businesses to better model likely demand response behaviour to better conduct network initiated demand response in manner informed by the predicted demand response.

As discussed above, a consideration for the AEMC will be impact on NSPs ability to directly access demand management services. NSPs should have the ability to access cost effective services, and this may be through the ability of NSPs to operate as DRAs. This was an important point raised by the networks sector in earlier workshops convened by AEMO in early development work on the rule change and detailed design.

The demand response mechanism also highlights emerging operational risk for the networks. Increasing penetration of demand response capability may lead to the emergence of network implications from synchronised switching (i.e. simultaneous aggregated load switching). In the short term, demand response resources are not likely to be material enough to adversely affect networks, but over-time demand response resources are likely to grow to the point where they cause power factor issues and adversely impact network reliability. These impacts would mirror the voltage disturbance issues caused by inverters on solar embedded generation that has caused the industry to implement “ramp rate” and randomisation requirements into inverters (e.g. AS4777-2015). Similarly, it will necessitate the need to establishment of a Load Management Protocol (or agreements with DRAs) to prevent synchronised Demand Response switching from adversely affecting reliability. However, unlike invertors that switch off when the voltage spikes the DRM incentive is unaffected. Therefore, the establishment of a Load Management Protocol (or agreements with DRAs) to control synchronised Demand Response switching would be required. Further it is essential that the regulatory framework for DRM addresses these risks at the outset, to ensure the framework is robust.

Another consideration to be explored by the AEMC is what broader obligations exist between NSPs serving customers contracting with DRAs. For example, it should be clarified that the network business is not liable for the DRA’s lost opportunity costs in the event of a network outage.

In conclusion, we recognise a number of benefits arising from the DRM rule change in enhancing the incentives for demand response and making these arrangements more visible. At the same time however, there are a number of matters relating to the interaction with the operation of networks that need to be addressed.

Finally, we note that AusNet Services is a member of Energy Networks Australia (ENA) and supports the ENA submission.

We welcome the opportunity to participate further in this Rule change development and looks forward to the opportunity to provide further input with the AEMC’s rule change process. Should you have any comments in relation to this response please do not hesitate to contact Justin Betlehem on 03 9695 6288.

Sincerely,



Kelvin Gebert
Regulatory Frameworks Manager