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[Register for the AEMC's workshop on aggregation of ancillary services loads.](#)

Aggregation of ancillary services loads

Workshop, Friday 27 April 2012

The AEMC will be holding a workshop on Friday 27 April 2012 to discuss potential arrangements for the aggregation of ancillary services loads. The AEMC has previously committed to holding a workshop on this issue and is now considering it as part of the Power of choice review.

The workshop will be held from 10am to 1pm in Melbourne at the Park Royal, Melbourne Airport. Registration for the workshop is now open.

This information sheet provides a background to the issues that will be considered at the workshop.

What is the issue?

Currently the requirements for participating in the spot market for the purchase of electricity and for the provision of ancillary services are identical: an entity must be registered as a market customer. This means that specialist aggregation businesses must effectively meet the requirements for, and register as, a retailer thereby creating a possible barrier to entry for some specialist aggregation businesses.

Furthermore, the commercial interests of existing market customers may differ from the commercial interests of end-use customers that wish to use their loads for market ancillary services. The bundling of energy products with ancillary services means that the choice of retailer will be dominated by the price of electricity, which may reduce the incentives for competitive ancillary services.

Market ancillary services and the spot market

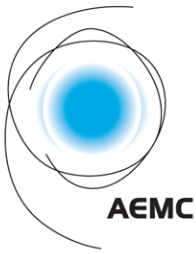
The Australian Energy Market Operator (AEMO) is responsible for ensuring that the power system is operated in a safe, secure and reliable manner. To fulfil this obligation AEMO must be able to control the key technical characteristics of the power system, such as frequency and voltage. The manner in which AEMO controls these services is through ancillary services. There are three types of ancillary services available to AEMO:

- Frequency control ancillary services (FCAS);
- Network support and control ancillary services (NSCAS); or
- System restart ancillary services (SRAS).

FCAS are used by AEMO to maintain the frequency on the electricity system at any point in time. For example, a change in output by a generation plant without a corresponding change in load may cause a change in frequency on the power system. To maintain the frequency within the NEM frequency standards, FCAS have been developed to alter generation or load to maintain the supply/demand balance.

AEMO procures FCAS through the spot market for ancillary services. Depending on whether the FCAS is used to support generation or load will determine which party the costs of FCAS are recovered from on a pro rata basis.

To participate in the spot market for electricity or ancillary services, an entity must be registered as a market participant, such as a market customer, market generator, or market network service provider. To ensure that an entity has the organisational and financial capabilities to buy and sell electricity in the spot market they must meet specific requirements set out in the rules, such as prudential standards.



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Therefore, an entity interested in providing market ancillary services only must also qualify to participate in the spot market for electricity. Effectively, this means that specialist aggregation businesses would also need to be retailers (i.e. market customers¹).

Aggregation of ancillary services loads rule change (2010)

In late 2010 the AEMC made a rule in relation to the aggregation of ancillary services loads. The new rule aimed to reduce barriers to aggregating loads for the purpose of providing market ancillary services by changing the administrative arrangements for registering aggregated load.²

Wider issues raised during the consultation process

During the consultation process for the rule change, the AEMC raised a number of wider issues that it considered relevant. These were:

- Businesses specialised in load aggregation can only provide aggregated market ancillary services if they also purchase electricity from the wholesale market for the loads. This means specialist aggregation businesses would also need to be retailers.
- The commercial interests of a market customer may differ from the commercial interests of end-use customers of market ancillary services. For example, the contractual arrangements between load and a retailer may be primarily designed to manage exposure to high electricity prices, including provisions for demand reduction by the load. The incentive for a retailer to provide competitive ancillary services is less clear, which means that the market for ancillary services may not be efficiently utilised.
- A market customer may be reluctant to arrange for a market load to be classified as an ancillary services load if that market customer does not have the appropriate systems to participate, or it considers the associated demand response may have negative financial implications.

Stakeholders agreed with the AEMC on these points, and encouraged further analysis of the issue, particularly as it represented a barrier to participation in demand side by aggregated services loads.

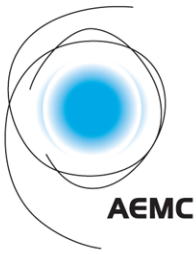
Matters for consideration at the workshop

The following issues were identified during the 2010 rule change, and the AEMC will be seeking feedback on these issues at the workshop.

- The requirements for creating a new category of market participant:
 - Is a new category of market participant required to address barriers to entry for businesses specialised in load aggregation?
 - If so, should the new category of market participant apply to both the spot market for electricity as well as the market for ancillary services?

¹ Chapter 10 of the NER defines a customer is a person who engages in the activity of purchasing electricity supplied through a transmission or distribution system to a connection point, and is registered by AEMO as a customer. A market customer is more specifically defined as a customer who has classified any of its loads as a market load.

² See Australian Energy Market Commission, *Rule Determination National Electricity Amendment (Aggregation of Ancillary Services Loads) Rule 2010*, 9 September 2010, AEMC, Sydney.



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- What types of provisions or registration requirements should be imposed on a new category of market participant in each of these spot markets?
- Should existing prudential requirements apply to businesses specialised in load aggregation? If so, why and how should they differ?
- Changes that may be required to AEMO's systems with the creation of a new category of market participant, including:
 - Market Settlements and Transfer System (MSATS) to accommodate market ancillary services transfer; and
 - Market Management Systems (MMS) to separate the wholesale electricity market from the market for ancillary services.
- Information provision arrangements to identify connection points that have separate financially responsible participants for the wholesale electricity market and the market for ancillary services.
- Changes to metering rules and the metrology procedures to allow two participants to have access to metering data.

Complementary rule changes and relevant material

The AEMC is currently assessing a rule change request from AEMO that proposes creating a new category of market participant called "Small Generation Aggregator". The new market participant would be defined as anyone who has market responsibility for a generator that is exempt from registering as a market participant, or who demonstrates to AEMO that they plan to operate a generator that meets this requirement. Effectively this would allow a small generation aggregator to have market responsibility for multiple small generating units throughout the NEM without the need to register each generator.

More information on this rule change can be found on the AEMC's website.

Other background reading that may be relevant to the matters for consideration at the workshop includes:

- Australian Energy Market Commission, *Rule Determination National Electricity Amendment (Aggregation of Ancillary Services Loads) Rule 2010*
- Australian Energy Market Operator website (www.aemo.com.au) for detailed supporting reading, such as:
 - *Guide to Ancillary Services in the National Electricity Market*
 - *Market Ancillary Service Specification v3.01 – Effective 01 Jul 2010*

Registering for the workshop

Registration for the workshop can be completed through the AEMC's website. Please register your attendance by Friday 20 April 2012.

If you have any questions regarding the workshop, please contact either Eamonn Corrigan or Electra Papas on (02) 8296 7800.