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**Submission to Wholesale Demand Response Mechanism Second Draft Determination
(ERC0247, RRC0023, ERC0248, RRC0025, ERC0250, RRC0027)**

We welcome the opportunity to comment on the Australian Energy Market Commission's (AEMC) Demand Response Mechanism Second Draft Determination (Second draft determination).

AGL Energy Limited (AGL) is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia, and South Australia.

AGL has engaged many customers in demand response, focusing predominantly on commercial and industrial (C&I) curtailable load as well as residential loads and batteries. AGL has technology and capabilities in place to call upon customers to curtail their load at times of peak wholesale price events, for network support events or during emergency situations.

The Second draft determination further integrates the initial Demand Response Mechanism (DRM) draft determination into the existing market framework and AEMO systems and procedures. These proposed changes will likely reduce implementation costs of the proposed DRM.

Within the context of the broader market reform agenda, including the potential development of a two sided market, we consider this approach is appropriate.

At this early stage of these major reviews, we support the AEMC's decision to use the existing market framework and AEMO systems as much as possible for the initial implementation of a DRM. As the AEMC and AEMO have noted, the creation of new market frameworks, and in turn new market and information systems, is costly and requires significant resources for both the market operator and market participants to implement. We therefore consider it necessary to settle the broader reviews relating to demand side participation rather than implementing reforms now that could soon become redundant.

Importantly, as large customers and DRSPs participate in this mechanism, the DRM will provide important practical insights as to how an expanded demand side participation framework could be developed.

With this context in mind, AGL broadly supports the proposed changes made in the second draft determination. Whilst the proposed framework will initially limit the DRM to particular types of large customers, the proposed framework facilitates an iterative development of fundamental concepts such as baseline methodologies and the role of non-visible Demand Response (DR) capacity in central dispatch.



Set out below are further comments on the proposed changes to the baseline methodology, system stability risks, how the framework will need to be adjusted as new types of capacity become eligible to provide Demand Response (DR), and the potential implications of a delay to the five minute settlement market reform.

Baseline methodologies

Under the second draft rule, AEMO will be required to determine the baseline methodologies that will apply to eligible DR units. Market participants may also propose new methodologies for AEMO to consider implementing. Importantly, AEMO would be required to publicly report any proposed methodology and the development of any new methodology.

The performance of baselines will be key to the success of the DRM. As outlined in our previous submission, baselines accuracy ensures the DRM provides value to market and does not result in market distortions or costs.

We consider the development of baseline methodologies through a centralised approach will likely provide a more orderly methodology development to gradually encompass different types of customer loads over time. This process will allow AEMO to include new types of loads overtime and iteratively adjust the methodologies when problems, such as baseline compliance, are observed. We consider this approach will likely result in better baseline accuracy, than requiring each DRSP to separately submit a baseline methodology for approval. Furthermore, this approach will also provide market participants with greater certainty as to what types of loads will likely be eligible to provide DR.

Importantly, in the second draft determination, AEMC states this centralised process does not limit retailers from developing innovative demand response arrangements between the retailer and the customer outside the DRM.

We note it is vital that baseline methodologies are put in place well in advance of the DRM go-live date to ensure that DRSP's can make their DR capacity available from the commencement of the DRM. We therefore look forward to early engagement with AEMO to settle this important precursor of the mechanism.

System stability risks

Under the second draft rule, AEMO may set an upper limit of the amount of non-visible demand response that can participate in each region. AEMO will also be required to consult with market participants when determining the methodology that will derive the non-visible DR threshold.

We support ongoing measures for AEMO to assess how non-visible DR may affect risks to the system. As DR capacity becomes more prevalent, it is important that the market value of the mechanism is not outweighed by detrimental effects on the system that in turn lead to greater uncertainty in system requirements. We therefore support the draft rule that provides AEMO with the ability to limit non-visible DR units to address system security risks.

FCAS causer pays

Under the second rule, a DRSP will not be subject to FCAS cost recovery. The AEMC noted that the costs of incorporating DRSPs into the FCAS settlement framework would outweigh the benefits. The AEMC has noted AEMO will have other tools under the draft rule to ensure DRSP comply with dispatch instructions.

Whilst we understand the reasons for exempting the DRM from the FCAS causer pays framework, the exemption should in turn place a stronger onus on AEMO to ensure the DR units conform with dispatch instructions as is required for other scheduled generators. Noting the potential challenges raised by AEMO with regard to linear DR unit ramp rates, we consider at this early stage AEMO should undertake a



conservative approach to assessing the eligibility of potential DR units when considering the impact of a unit's ramp rate capabilities and inflexibility profiles on system support requirements, such as FCAS.

Adjustments to the DRM framework

As the DRM develops and more types of DR capacity become eligible, we consider components of the framework will eventually need to be adjusted with it. Key aspects such as DR unit information requirements to retailers and the appropriateness of the reimbursement rate will need to be reconsidered. As noted in our previous submission to the first draft rule, we consider real time baseline information needs to be provided to retailers who have DR units as customers to effectively forecast their load requirements. We have also noted the reimbursement rate should better reflect a representative retailer's costs of energy supply, such as a weighted average of peak contract prices. As eligibility of DR units encompasses more varying types of large customer loads, these aspects will become increasingly important for retailers in both the effective forecasting of customer load, and the commensurate reimbursement of wholesale costs.

Implementation of the DRM

We note the AEMC proposes to bring forward the implementation of the DRM from 1 July 2022 to 24 October 2021 due to changes in the cost and complexity of the DRM. In light of AEMO's proposed rule change to delay five minute settlement from 1 July 2021 to 1 July 2022, we ask that the AEMC reconsider the appropriateness of the DRM start date. As the AEMC have noted a key consideration in this regard is the implementation of other regulatory reforms such as five minute settlement and global settlement.

Consistent with the AEMC reasoning of minimising the potential risk of system changes that could quickly become redundant, the AEMC should consider whether additional costs will be incurred as a result of this delay in five minute settlement and in turn whether these additional costs out-weight the likely benefit of implementing the DRM prior to five minute settlement. This is particularly relevant if the uptake of DR is predicated by the sharper price signals provided through five minute settlement. We would support the AEMC avoiding unnecessary implementation of elements of the DRM reforms which could become quickly redundant or require modification very soon after commencement.

If you have any queries about this submission, please contact Kyle Auret on (03) 8633 6854 or Kauret@agl.com.au.

Yours sincerely,

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