



Wholesale demand response mechanism second draft rule

Second draft rule and draft determination for Wholesale demand response mechanism rule change request published.

The Australian Energy Market Commission (AEMC) has released a second draft rule determination setting out a series of changes to the National Electricity Rules (NER) to facilitate wholesale demand response in the national electricity market (NEM), principally through implementing a wholesale demand response mechanism.

Providing consumers with more opportunities to provide wholesale demand response

This draft determination sets out a series of changes proposed by the Commission to the NER to facilitate wholesale demand response in the NEM, principally through implementing a wholesale demand response mechanism. This represents a significant reform for the NEM. Under this draft rule, consumers would be able to sell demand response in the wholesale market through specialist aggregators for the first time.

This draft rule represents an important reform for the NEM. It would introduce a low-cost mechanism for transparently engaging the demand side in central dispatch. Since the NEM commenced, the demand side has rarely participated in central dispatch. However, under this mechanism, consumers would be able to actively participate in central dispatch and be rewarded for the value they provide to the system. In addition, this mechanism would capture the benefits of greater demand side participation and share these benefits with all consumers. This mechanism also provides for more flexible capacity in the wholesale market. Wholesale demand response will be able to compete with peaking generation in times of tight supply and demand balance.

The opportunity to introduce a wholesale demand response mechanism arises because there is growing interest across industry in participating in wholesale demand response, as highlighted by the three rule change requests received by the Commission. This draft rule would provide those consumers with greater opportunities to participate in the wholesale market in a manner that values their response while also contributing to improving reliability and security in the NEM.

Overview of draft determination

The Commission has determined to make a more preferable draft electricity rule. The second draft rule:

- introduces a new market participant category, a demand response service provider (DRSP)
- places obligations on DRSPs that, as much as practicable, replicate those applied to other scheduled participants, for example, similar information provision and scheduling obligations
- sets out a process for having baseline methodologies determined and applied to wholesale demand response units
- provides for DRSPs to be settled in the wholesale market for the wholesale demand response they have provided at the prevailing spot price
- sets out implementation timeframes for the mechanism, with the mechanism commencing on 24 October 2021.

Extension of timing for making final determination and improvements made to design

On 5 December 2019 the Commission extended the time for making a final determination until 11 June 2020. This extension followed the provision of supplementary information by the market operator, the Australian Energy Market Operator (AEMO), on implementing the proposed mechanism. It also followed a request from the COAG Energy Council to the Energy Security Board (ESB) (which includes the Commission) for advice on the design of a two-sided market for the NEM.

The second draft rule implements a wholesale demand response mechanism that is similar in form to the mechanism set out in the previous draft determination. Following the extension, the Commission has made several improvements to the mechanism design. These improvements are designed to achieve:

- lower implementation costs for AEMO due to reduced investment in systems that are expected to become redundant if a two-sided market is introduced. For example, the changes to the process for determining baseline methodologies has reduced overall implementation costs and, as centrally determined baselines are not expected to feature in a two-sided market, reduced the scale of systems investment that could be made redundant.
- an earlier start date. The implementation date in the first draft determination was guided by the time needed for AEMO to update its systems to implement the mechanism. By reducing the costs and complexity of implementing the mechanism, the implementation date has been brought forward from 1 July 2022 to 24 October 2021. This means wholesale demand response can be provided through the mechanism prior to the summer of 2021/22.
- greater opportunities to learn about demand side participation in the event that a two-sided market is introduced. The COAG Energy Council has asked for advice on longer term market design changes including the introduction of a two-sided market. This transition would mean a greater role for the demand side of the market in processes such as scheduling and dispatch. The second draft rule presents an important opportunity to learn from the approach taken with scheduling demand response and to use this to inform the design of scheduling and dispatch suitable for a two-sided market.

Two-sided market is the enduring solution

The Commission notes there is significant stakeholder interest in promoting demand response opportunities for residential customers, and facilitating small customer demand side participation would benefit consumers and the NEM. In seeking to engage small customer demand side participation and share the benefits with all consumers, care needs to be taken in selecting the right framework. The Commission considers that the best approach is to develop a two-sided market, which is more suited to small customer involvement.

The Commission considers that moving to a two-sided market will assist the NEM in effectively evolving and transitioning to the future power sector, and that will provide enduring consumer benefits. A two-sided market is characterised by the active participation of the supply and demand side in dispatch and price setting. Moving to a two-sided market should enable the transition to a future NEM characterised by increased variable supply and more flexible, price responsive demand.

Consultation

The Commission invites submissions on this second draft rule determination, including the more preferable second draft rule, by 23 April 2020.

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12 March 2020