

23 April 2020

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
Level 6, 201 Elizabeth Street,  
Sydney NSW 2000

Submitted online: [www.aemc.gov.au/contact-us/lodge-submission](http://www.aemc.gov.au/contact-us/lodge-submission)  
Your reference - ERC0247

Dear Mr. Pierce

**RE: Australian Energy Market Commission (AEMC) Draft Rule Determination 12 March 2020: Wholesale Demand Response Mechanism (DRM)**

Thank-you for the opportunity to provide a submission in response to the AEMC's Draft Rule Determination concerning the National Electricity Amendment (Wholesale Demand Response Mechanism) Rule 2020 and the National Energy Retail Amendment (Wholesale Demand Response Mechanism) Rule 2020.

Momentum Energy Pty Ltd (Momentum) is an energy retailer owned and operated within Australia. Momentum is owned by Hydro Tasmania; Australia's largest producer of renewable energy. We pride ourselves on providing competitive pricing, innovation and outstanding customer service to consumers in Victoria, New South Wales, South Australia, Queensland, the ACT and on the Bass Strait Islands. We offer competitive rates to both residential and business customers, and provide a range of innovative energy products and services, including the retail of natural gas in Victoria.

**Support for Aspects of this Draft Rule Determination's DRM**

Whilst Momentum believes large customers can adequately participate in demand curtailment initiatives via direct contractual arrangements with retailers, we support the AEMC's decision to introduce the DRM. We are particularly supportive of the decision to limit the scope of the DRM to the market segment more readily able to participate: large customers. This poses less risk for retailers, allows for faster implementation, and provides the market an opportunity to assess the uptake of this facility, prior to the development of a two-sided market for all customers.

Additionally, restricting the DRM to large customers will vastly reduce system costs for retailers and the Australian Energy Market Operator (AEMO), without imposing a heavy financial burden on the customer. Some large customers have separate electricity generation equipment, production diversity and/or alternative sites that will allow them to more readily reduce their electricity demands. Establishing and determining baseline consumptions for large customers will also be much simpler than for small customers, due to the availability of interval metering and a better understanding of their normal load profiles.

Furthermore, to extend the DRM to small customers would generate the need to include appropriate customer protections in the retail rules. By limiting the DRM to large customers, the retail rules remain unchanged. This is perhaps unsurprisingly a positive outcome for Momentum, as the deliberated changes to the retail rules would have required changes to operational processes and extensive training for most staff.

Lastly, Momentum is pleased the proposal no longer requires market participants to develop and submit baseline methodologies to the AEMO for approval. This requirement would have been onerous for participants and the exercise of building system capabilities to receive and review a raft of different methodologies would have been costly for the AEMO. The revised approach will limit the number of methodologies whilst allowing for innovative changes to the AEMO's baseline approaches.

### **Specific Concerns with this Draft Rule Determination's DRM**

#### **1. The reimbursement rate**

The Determination proposes that the reimbursement rate be a rolling average of demand-weighted spot prices over the previous 12 months, to be calculated by the AEMO on a quarterly basis. Momentum supports the decision to make the AEMO responsible for the reimbursement rate, as opposed to the Australian Energy Regulator. However, we take issue with the proposed method of calculation. It would be more appropriate to calculate the rate using a forward curve of the wholesale market, so as to better reflect future risks. We note that the AEMC's modelling found minimal difference between the proposed method and using future forward prices. However, we would challenge the efficacy of using historical data to project future market prices; especially in the uncertainty of current times. We disagree with the Determination's reasoning for dismissing a calculation based on future forward prices, namely the lack of liquidity in the South Australian wholesale market.<sup>1</sup> The reimbursement rate should be reviewed with this in mind, as it remains one of the key risks for retailers.

#### **2. The proposed implementation date**

This Determination has brought the proposed implementation date for the DRM forward from 1 July 2022 to 24 October 2021. This date was revised largely because the DRM was to be limited to large customers, thus reducing overall complexity with implementing the mechanism. Whilst this may have been true at the time in which it was considered, we

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<sup>1</sup> AEMC Second Draft DRM consultation paper page 218

believe that implementation should be deferred until such time as the market is no longer suffering the effects of COVID-19. Other market changes have or will be deferred for this reason, and Momentum asks that the DRM implementation date also be rescheduled in light of the market's priorities.

### 3. The viability of the Demand Response Service Provider (DRSP)

Momentum queries the creation and implementation of an additional market participant, given the DRM is now limited to large customers. One of the reasons the DRSP was initially proposed was to encourage small customer demand loads into the market. With small customers no longer a consideration, the commercial justification for the DRSP is seemingly tenuous. Furthermore, the DRSP's funding requirement reduces the demand management incentive for large customers. Large customers will likely be offered more commercially beneficial demand management directly from their retailer. Momentum asks that the viability of the DRSP be reassessed with these potential consequences in mind.

Should you require any further information with regard to this submission, please don't hesitate to contact me on 0478 401 097 or email [randall.brown@momentum.com.au](mailto:randall.brown@momentum.com.au)

Yours sincerely

[Signed]

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