



30/04/2020

John Pierce  
Chairman  
Australian Energy Markets Commission  
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Via electronic lodgement

To John,

### **Wholesale Demand Response Mechanism (WDR) Second Draft Determination**

Thank you for this opportunity to provide feedback on the AEMC's second draft determination regarding the proposed Wholesale Demand Response Mechanism (WDRM) rule change.

Mondo provides a variety of contracted transmission and distribution services, including grid connections for new generators, battery energy storage systems and aggregation of Distributed Energy Resources (DER). We believe that demand response will play an increasingly strong role in Australia's energy future, owing to falling costs and a need for more system flexibility. This flexibility will underpin the transition to a more renewable, distributed energy future.

We support the AEMC's first step towards enabling greater levels of demand response. We note that the second draft determination overcomes many of the challenges in the first draft, in particular related to the cost of implementation and operation, of the WDRM.

#### **Facilitating 'Value Stacking' within the 'Additionality'**

A feature of the WDRM design is the provisions concerning 'additionality', which prevent the bidding in of demand response that was already going to occur. We believe these additionality provisions should be designed to enable, and in fact encourage, 'Value Stacking'. Value stacking being the delivery of value across multiple parts of the electricity supply chain, from a single asset or action. In Mondo's submission on the first draft we expressed concern that additionality provisions would prevent value stacking, noting:

*The current proposed additionality provisions run the risk of prohibiting or discouraging value stacking, especially where demand response requires long-term capital investments. For*

**Bright future.**

*instance, in practice DRSPs will need to invest significant funds to recruit customers, install DER and install control systems. These upfront investments must be justified on the basis of expected long term returns.*

The second draft determination has mostly clarified this issue of additionality and its impact on value stacking, stating (Section F.5.8):

*If value stacking enables a customer to provide additional demand response, a DRSP would be able to offer this in the wholesale demand response mechanism. In effect, this means that, through the introduction of the wholesale demand response mechanism, more value stacking for demand response should be able to occur than is currently the case.*

*... This means that DRSPs should only offer wholesale demand response when it is additional to the activities that that load was already going to undertake. In effect, this is intended to prevent consumers paying for a demand reduction that was already going to occur.*

The only remaining point of ambiguity then is how the rule will be implemented to determine what ‘was already going to occur’ and in particular, from which point in time this should this be evaluated. Different points in time will have very different results and implications for value stacking.

For example, if the point in time is aligned with the decision point for demand response investments, then this will support value stacking and may justify investment in more demand response capacity at a particular site. A likely scenario would see a DRSP investing in a demand response solution with anticipated revenue coming from both an NSP and the WDRM, both being needed to justify the investment. If what ‘was already going to occur’ (the counterfactual) is assessed just before this investment, then both value streams can be stacked, and the project can proceed.

The alternative to the above, is that what ‘was already going to occur’ is determined at some time closer to dispatch, for example at the point the bid is made. If this is the case, then it is likely the DRSP (in the previous example) would breach the additionality provision. This is because at the point a bid is made the substantial cost of the demand response solution has already occurred (it is a sunk cost) and the DRSP is committed to providing a demand response service to the NSP. As a result, the DRSP in the example would not be able to collect payment from both the NSP and the WDRM. Consequently, the initial investment in the demand response solution would not be justified or go ahead, despite it being efficient from a value stacking perspective.

Given the above, Mondo would support a rule which allows additionality to be determined based on the point in time at which a DRSP or customer decided to invest in the relevant demand response solution. Such a provision may simply allow a DRSP to register the timing of substantial investments intended to deliver capacity to the WDRM.

## **Sharing Information with NSPs**

The WDRM provides AEMO with valuable information on the availability and dispatch of demand response. We understand this information is valuable and enables AEMO to better manage the NEM, potentially saving costs in other areas.

Similarly, we note that the same information is relevant to Network Service Providers (NSPs) in their operation of networks. Here we understand WDRM information could support:

- Network planning & forecasting
- The design of local demand response programs & network tariffs
- The operational management of networks
- The identification of local demand response resources

We are also hopeful, that the provision of WDRM information to NSPs would enhance the use of, and market for, demand response over the long-term. To this end Mondo would support the inclusion of provisions for information sharing with NSPs in the final rule.

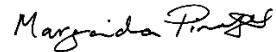
### **Encouraging DRSPs to participate**

Participating in the WDRM, places significant obligations on a DRSP. In particular, a DRSP must register, bid and dispatch in a manner similar to large scheduled generation, if it is to receive payment.

This process provides valuable transparency and control to AEMO, the market operator, and for the NEM overall. However, meeting these obligations does create additional obligations and costs for the DRSP, which do not apply if customers choose to provide demand response via a bilateral contract with their Retailer.

We would support any provisions in the final rule that recognise the additional value participation in the WDRM provides, with respect to the counter-factual being unscheduled price responsive load. We also note that, incentivising the efficient collection and sharing of information with AEMO and NSPs is likely to be an emerging market issue, especially as Virtual Power Plants (VPPs) continue to proliferate.

Yours sincerely,



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**Manager Policy and Aggregation Services**