



NEWS

New tool for energy security and reliability on the horizon

Australia's national electricity market will be handed a new, affordable tool to help manage security and reliability issues ahead of the 2021/22 summer, the Australian Energy Market Commission announced today.

The Commission has drafted new market rules that will allow large customers to routinely trade their energy use in the market.

The new 'wholesale demand response mechanism' will encourage these large customers to change their electricity consumption in the short-term in response to market signals. They will be able to adjust their consumption based on their expectation of the wholesale spot price.

"This is an important milestone for the rapidly changing national electricity market because it gives us extra power to manage the transition," said AEMC Chair John Pierce.

"Wholesale demand response is potentially a much more affordable way to ensure a secure and reliable energy supply than other sources of peaking generation such as gas or pumped hydro. It can be used to address sudden drops in supply or spikes in demand.

"What has been missing until now is the ability to equip consumers with the technology to respond (such as through advanced metering) and giving them a way of revealing the prices that would cause them to alter their consumption pattern. Our new draft rules create the opportunity for large energy users to be part of the solution."

Currently, some large energy users already participate in emergency demand response through the Reliability and Emergency Reserve Trader, where they contract with Australian Energy Market Operator (AEMO) to use less energy when the system is challenged.

The new market mechanism allows large energy customers such as manufacturers and data centres to routinely bid their demand response into the market on a daily basis. It involves making some key changes, including creating a new type of market participant – a demand response service provider.

These new service providers will have similar obligations to large-scale energy generators. They might be specialist demand response aggregators, retailers or large energy users themselves.

The new rules will govern areas such as: the information the new service providers need to give the market; how the new providers can bid into the wholesale market; and a process for establishing the baseline energy use of large consumers so that a value can be put on their demand response.

They will apply to large industrial and commercial energy customers because they have more predictable energy use, often for fixed hours and timetables and this is easier to schedule into the existing market.

The complexity of trying to measure and schedule demand response for small consumers with lower and less predictable energy loads would be cost prohibitive to roll out – both for retailers and the Australian Energy Market Operator (AEMO). And this would ultimately lead to higher consumer bills.

"But the changes won't get in the way of smaller consumers adapting their energy use in response to their environment," Mr Pierce said. "There are many government and retail schemes, trials and programs under way doing exactly that and these will continue.

"Eventually, the best way for small consumers to get the full value of demand response via efficient use of their pool pumps, electric vehicles and household batteries and appliances will be within a two-sided market. We aren't there yet but with increasing digitalisation

New help for reliability and security on the horizon cont'd

this is where we are headed and as part of our role on the Energy Security Board, we are working on a two-sided market design. When we get there, we will have outgrown the demand response mechanism we are discussing today. A truly two-sided market would give both large and small customers access to participate in the wholesale market in a timely and cost-effective way.

“But these changes are a critical interim step that will allow us to take advantage of demand response now to help with security and reliability. They will also help us get future ready through the valuable lessons we will learn about dispatching energy in a two-sided market.”

The Commission first drafted rules around wholesale demand response in July 2019. After consultation with the Australian Energy Market Operator (AEMO) we have made further changes that will see the new tool implemented in a simpler, faster and cheaper way.

We have released the revised rules today to give stakeholders the opportunity to comment before we publish a final determination in June 2020.

AEMO's Executive General Manager, Emerging Market and Services, Violette Mouchaileh said: “AEMO has worked in collaboration with the AEMC to develop a design to support the cost and time efficient introduction of a wholesale demand response mechanism in time for summer 2021-22.

“Wholesale demand response is an important mechanism to reward consumers and improve the security of the electricity system,” she said.

The new rules are expected to be in force by 24 October 2021. They were made in response to requests from the Total Environment Centre, The Australia Institute, the Public Interest Advocacy Centre, the Australian Energy Council and the South Australian Government.

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About the AEMC

The Australian Energy Market Commission is the rule maker, market developer and expert adviser to governments on energy. It protects consumers and achieves the right trade-off between cost, reliability and security.