



28 April 2020

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

Wholesale Demand Response Mechanisms – Second Draft Determination

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Wholesale Demand Response (WDR) Mechanism Second Draft Determination.

Origin understands the proposed revisions to the WDR mechanism have largely been made to reduce the complexity and costs associated with implementation and allow for an earlier start-date. However, further consideration should be given to the rationale for introducing the mechanism at this time. As identified by the AEMC, the proposed mechanism is not expected to be enduring and more fundamental changes to the National Electricity Market (NEM) framework may be needed to better facilitate demand side participation in the wholesale market. It is also not clear the mechanism will deliver any material benefits for consumers in the near term, given the introduction of a Strategic Reserve and enablement of multi-year Reliability and Emergency Reserve Trader (RERT) contracting in Victoria will likely cannibalise the level of WDR that may have emerged.

Noting the above, a more prudent approach would be to not make the proposed rule and instead undertake a more holistic assessment of the changes potentially required to better facilitate WDR through the post-2025 market design program. However, should the WDR mechanism be implemented as proposed, it is still important to ensure the mechanism is designed in a way that minimises potential distortionary impacts on wholesale/retail market dynamics. Consistent with this, we have provided comments on specific elements of the Second Draft Determination below.

- **Causer pays framework:** Origin is supportive of ensuring the causer pays framework is consistently applied across all market participant categories. We therefore do not believe it is appropriate to exempt demand response service providers (DRSPs) from the frequency control ancillary services (FCAS) cost recovery process. While the AEMC considers the costs of incorporating DRSPs into the causer pay's framework would outweigh any benefits, there has been limited analysis relating to the level of WDR that could be provided under the mechanism, or its associated impact on power system frequency. Exempting DRSPs from FCAS cost recovery while simultaneously allowing them to be remunerated for providing FCAS through participation in ancillary services markets, would also introduce perverse incentives.
- **Reporting requirements:** Information relating to the availability and usage of WDR will be important to allow for accurate forecasting of the supply-demand balance. Origin is therefore supportive of ensuring DRSPs are required to provide information relating to the availability of WDR units over timeframes beyond the short-term Projected Assessment of System Adequacy (PASA). We also support requiring the Australian Energy Market Operator (AEMO) to publish:

- information relating to the volumes and types of demand response reported through the Demand Side Participation (DSP) portal; and
 - an annual report relating specifically to DRSP-led WDR that would include the information set out under Clause 3.10.6.
- **Access to small customers:** Consistent with the AEMC's First Draft Determination, Origin agrees that access to the WDR mechanism should be limited to large customers. This approach is unlikely to detract from the efficacy of the mechanism, given the cost of enabling technologies and value proposition for small customers would likely limit participation. As noted by the AEMC, expanding the mechanism to incorporate small customers would also likely introduce additional cost and complexity for the AEMO and retail market participants.
 - **Commencement date:** Origin considers the proposed commencement date should be extended to 24 October 2022 in the event AEMO's rule change proposal to delay the commencement of five-minute settlement by 12 months is progressed. This would ensure AEMO and market participants are not required to successively update their systems to accommodate WDR under current and future market settlement arrangements. As discussed above, we also do not believe there is a material need to implement the WDR mechanism before summer 2021-22, given the pending introduction of a Strategic Reserve and enablement of multi-year RERT contracting in Victoria.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,



Steve Reid
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