Government of South Australia
Department for Energy and Mining

Our Ref:

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

Dear Mr Pierce John

RE: ERC0247, RRC0032 - WHOLESALE DEMAND RESPONSE MECHANISM RULE CHANGE – SECOND DRAFT DETERMINATION

The Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining thank you for the opportunity to make a submission on the *Wholesale Demand Response Mechanism Rule Change – Second Draft Determination*, issued by the Australian Energy Market Commission (the Commission) on 12 March 2020.

As stated in our submission to the first draft determination, the Division welcomes the Commission's draft decision to implement a wholesale demand response mechanism. A demand response mechanism has long been debated in the National Electricity Market and we consider the Commission's draft determination to be a significant reform, and a positive step on the transition towards a two-sided market.

As we have previously submitted, the transition to a carbon constrained future is creating a rapidly changing wholesale electricity market. The creation of effective frameworks to ensure a two-sided market is required to avoid the risk of over-investment in electricity infrastructure to the detriment of all consumers. As investment decisions are being made now, delay in implementing these mechanisms may carry considerable risks.

For this reason, we are very supportive of the decision made by the Commission in its second draft determination to bring forward the commencement date of the wholesale demand response mechanism to 24 October 2021.

The Division has always supported the implementation of this mechanism at least cost. This was a goal of the Division's rule change proposal to the AEMC. We are therefore supportive of the Commission's second draft determination which reduces the scope of the changes required to AEMO's systems to accommodate the wholesale demand response mechanism, thereby allowing AEMO to use existing or simplified systems and processes.

The settlement mechanism for wholesale demand response proposed in the second draft determination is also considered more cost-effective for consumers and market participants. Allowing retailers to continue to bill customers based on actual consumption was previously supported by the Division in its transitory model, as this reduces the changes required to retailer billing systems and the associated implementation costs.

For these reasons, we are supportive of the amendments made by the Commission in the second draft determination which reduce implementation costs from a range of $40-$95 million to $13-17 million, as estimated by AEMO.

The Division is also supportive of the Commission's decision to place obligations on Demand Response Service Providers (DRSPs) that replicate those applied to scheduled generators as far as practicable, including scheduling obligations. Again, this is consistent with our initial rule change proposal which considered that DRSPs should be recognised on equal footing with generators in the wholesale market.

The additional transparency measures introduced in the second draft determination, such as the information provided to retailers when their retail customers are participating in wholesale demand response, are also supported as these should further assist retailers in managing their exposure in the wholesale market.

The decision to simplify the determination of baselines by removing the ability for market participants to develop baseline methodologies and submit to AEMO for approval is also supported. The approach in the second draft determination would still enable AEMO to determine appropriate baselines, and for new methodologies to be raised for AEMO's consideration, while avoiding significant costs.

While our initial rule change proposal suggested that DRSPs should be required to pay Frequency Control Ancillary Services (FCAS) causer pays costs, the Division understands the Commission's revised position on this matter. As the advice has suggested that implementing this requirement on DRSPs would be costly and provide limited benefits, the Division is comfortable with the change to remove this requirement. Requiring AEMO to report on whether DRSP participation is impacting on the cost and quantity of FCAS being procured and, if it is discovered that DRSPs have a material impact on FCAS needs, then revisiting whether some of these costs should be recovered from DRSPs, we consider is an appropriate position at this time.

The Division notes the Commission's decision to limit the implementation of the mechanism to large customers only. We understand the Commission's reasoning relates to the types of demand response provided by small customers not being suited to being scheduled, as well as the difficulty in determining appropriate baselines for small customers.

As noted in submissions to the first draft determination (including the South Australian Government's), there is an appetite for demand response services at a household level and, currently, a limited number of retailer offers for these services exist.

Further, the Commission's report notes the difficulties in small customers accessing demand response products. Little transparency of demand response products for small consumers inhibits their ability to request, assess and decide on the merits of demand response products.

The Commission has recommended, as a complementary measure, that the Australian Energy Regulator (AER) consider making changes to the Energy Made Easy comparison site to ensure that spot price pass through contracts and other demand response services offered by retailers are represented, and that their cost and competitiveness is accurately shown to users of the tool. It is noted however, that the AER has undertaken a major redevelopment of the Energy Made Easy website and these changes were beyond the scope of the project, and therefore may not be implemented for some time. This may further delay small customers' ability to access demand response products.

We therefore consider that AEMC and AEMO should continue to work on how small customers could be included in the mechanism and, at minimum, suggest this matter should be formally reviewed after one year of operation of the new mechanism.

Finally, as you are aware, minimum demand is an emerging challenge that must be managed in the National Electricity Market. In the same way that the mechanism will allow the demand side to respond to high spot prices by reducing consumption, we query whether the mechanism could be used to increase load at times of low demand by encouraging consumption from those contracted to provide demand response. The Division therefore requests the Commission to further consider whether the demand response mechanism could be used to reward increasing demand in negative pricing periods.

Finally, the Division is very supportive of the earlier commencement date. Whilst we have raised matters for consideration, we do not want these matters to impact the commencement date and accept they may need to be addressed in the evolution of the mechanism.

The Division continues to thank the Commission for their work on the wholesale demand response mechanism and looks forward to further engagement during this important rule change process.

Should you wish to discuss this further please contact Ms Rebecca Knights, Director – Energy Policy and Projects, Energy and Technical Regulation Division, on (08) 8429 3185 or 0428 265 825.

Yours sincerely,

Vince Duffy
EXECUTIVE DIRECTOR
Energy and Technical Regulation Division
Department for Energy and Mining

12 May 2020