

24 April 2020

John Pierce AO
Chairman
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By email.



Dear Mr Pierce

**Second draft rule and draft determination
for wholesale demand response (WDR) - ERC0247**

The Australia Institute welcomes the opportunity to make a late submission on the second draft rule and draft determination for the wholesale demand response (WDR) mechanism, in support of the joint submission we are party to.

WDR and other reforms that open up the National Electricity Market to competition, in a 2-sided market, could play a significant part in the economic recovery following the COVID-19 health crisis. Current circumstances give the Commission a new and larger role, helping drive economic rebuilding for the nation, in addition to its core mandate to support the NEO.

In this second draft, the Commission has presented a more preferable rule, that contains a considerable number of changes to the mechanism, which increase the effectiveness of this crucial reform.

For example, we are pleased to see a number of changes that make it easier for more large energy users to participate (such as allowing some non-SCADA units), and remove unnecessary complexity for AEMO (such as removing requirement for FCAS costs to be recovered, unless these becomes material in the future). Likewise, the removal of the 5MW minimum aggregation requirement should help bring more demand response service providers and DR units into the market.

Crucially, the system has been made very simple for retailers. As a result, there is no serious IT or other burden on retailers imposed by WDR. It is clearly beneficial to bring forward the implementation date from July 2022 to 24 October 2021.

As the joint submission says, a 2021 commencement will help bring in consumer benefits earlier. It will also help with the longer term regulatory agenda prosecuted by the AEMC, Energy Security Board and COAG Energy Council. As the Commission noted in the second draft, the reform ‘presents an important opportunity to learn from the approach taken with scheduling demand response and to use this to inform the design of scheduling and dispatch suitable for a two-sided market.’¹

We wish to express serious concern about the proposal to delay WDR 5 Minute Settlement (5MS), as a result of the COVID-19 crisis, and note this issue is being addressed currently by the market bodies, in advice to COAG Energy Council.

Delay to 5 Minute Settlement will undermine the WDR market substantially and harm the interest of consumers, who are meant to be protected in this statutory process. We oppose any delay to 5 Minute Settlement.

The WDR rule change process and draft determination assume 5 Minute Settlement will be implemented on time so it is hard to see how 5 Minute Settlement can be delayed, without undermining the integrity of this current rule change.

We reiterate our concern, first expressed in a letter to you, co-signed by the Public Interest Advocacy Centre and Total Environment Centre on 20 December 2019, that if the AEMC’s decision making is now integrated with informal ESB processes that we do not participate in, that threatens the integrity and due process in the rule change process that all stakeholders, including us as proponents, expect to be followed.

If the COVID-19 issue is used as a reason to delay WDR and 5 Minute Settlement, then there should also be consideration of the broader benefits of WDR.

We are pleased to be able to cite analysis by AEMC economist Dr Alan Rai, which supports our own research, that a full implementation of WDR will ‘contribute to resolving Australia’s energy trilemma: emissions reduction, affordable electricity prices and a reliable and secure power system’.² WDR is necessary for the NEO – as stated in the draft determination – but it is also vital for helping Australia meet our climate obligations under the Paris Agreement.

¹ Australian Energy Market Commission (2020) *Wholesale demand response mechanism, Draft rule determination*, p.ii

² Rai (2020) *Demand response in a distributed, decentralised, decarbonised and digitalised NEM: much more than “negawatts”*, <https://www.ecogeneration.com.au/demand-response-in-a-distributed-decentralised-decarbonised-and-digitalised-nem-much-more-than-negawatts/>

We do remain disappointed that households will not have access to WDR through this rule change.

We are happy to provide further detail if required.

Regards,

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