

Mr Declan Kelly
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000



23 April 2020

Re: ERC0247 – Draft Rule Determination - National Electricity Amendment (Wholesale Demand Response Mechanism) Rule 2020

Dear Mr Kelly

The Energy Efficiency Council (EEC) thanks you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) updated Draft Determination on the Wholesale Demand Response Mechanism (DRM).

The EEC congratulates the AEMC's Commissioners and staff on their proposed DRM design. Demand response can provide low-cost, reliable and low-emissions dispatchable capacity. Reducing the barriers to demand response in the National Electricity Market (NEM) and making it more visible will improve economic efficiency, increase competition, improve reliability and reduce costs for consumers. The AEMC's recent Rule Change to enable demand response to participate in Frequency Control Ancillary Services markets demonstrates that only a modest volume of demand response can enhance competition in a way that delivers significant reductions in consumers' total bills for electricity services.

The EEC supports the overall design of DRM Rule Change that has been proposed by the AEMC in its Draft Determination. The EEC:

- Supports the AEMC's proposal to create a new category of Demand Response Service Provider (DRSP) that can sell demand response into the wholesale energy market on an equal footing to generation. The proposal would not only allow specialised DRSPs to provide demand response services, but would also allow retailers to continue to offer their customers demand response services either via their current arrangements or as DRSPs. Providing retailers with multiple options for providing demand response services will ensure that they can continue to play a vital role in markets for energy management services.
- Supports the AEMC's proposal to schedule demand response that is sold into the wholesale energy market, subject to the requirement for scheduling being placed on the DRSP's overall bid offer (which could be aggregated from multiple energy users), rather than requiring every individual energy user to be scheduled;
- Supports the initial focus on enabling large energy users to sell demand response into the energy market by 24 October 2021. The EEC accepts that households may not be able to initially participate in the DRM, but strongly encourages the AEMC and Australian Energy Market Operator (AEMO) to start investigating methods for smaller consumers to participate in the DRM.
- Supports removing the minimum 5 megawatt aggregation requirement.
- Supports removing the requirement for FCAS costs to be recovered from DRSPs; and
- Supports bringing forward the implementation date from July 2022 to October 2021.

However, the EEC recommends a number of modifications to the proposed Rule Change and implementation plans. The EEC:

- Strongly recommends reducing telemetry requirements for demand response participants to 60 seconds. The Draft Determination appears to suggest that, after a certain amount of demand response is being delivered in a region, sites will be required to provide 4 second data. This level of precision is far higher than is either necessary or required in well-established overseas demand response markets, and will significantly and unnecessarily increase the cost of participating in the DRM.
- Accepts that AEMO will need to have some discretion over the time that it allocates to assessing alternative proposals for site-specific baseline methodologies, but strongly encourages AEMO to consider reasonable proposals as rapidly as possible.
- Strongly recommend that market bodies and governments continue to pursue a range of practical reforms to encourage demand response, including demand response by households, rather than solely focus on the development of a two-sided market. While a two-sided market is a theoretically appealing concept, it is very early in its development and it is still far from clear whether a two-sided market will be practical or effective. Therefore, we strongly recommend governments to investigate a range of methods to support demand response participation, including but not limited to a two-sided market.

The EEC congratulates the AEMC's Commissioners and staff for taking the initiative to develop a preferred rule change to unlock the benefits of wholesale demand response. The AEMC's proposed Rule Change appears to have similar benefits and lower costs than the Rule Changes proposed by the Public Interest Advocacy Centre, Total Environment Centre, Australia Institute and South Australian Government. The AEMC's proposed Rule Change will also provide consumers with far more choice, significantly increase competition, and deliver lower wholesale energy costs than either maintaining the *status quo* or introducing the Australian Energy Council's proposed Rule Change.

There has been overwhelming support for the AEMC's proposed Rule Change from energy consumers and independent experts. The few concerns that have been raised about the AEMC's proposed Rule Change are either incorrect or easily addressed, specifically:

- **The optimal level of demand response**

Some organisations have argued that the current level of demand response is already optimal. While there is no firm figure on the current volume of demand response in the NEM, all indicators suggest that it is well below the economic potential. Moreover, it is self-evident that the current volume of demand response must be below its economic potential - the vast majority of energy users do not face price signals that would encourage them to undertake an efficient level of demand response. While leading electricity retailers are assisting many of their customers to undertake demand response, the majority of energy users are neither exposed to the wholesale electricity price nor have an agreement with their energy retailer that appropriately incentivises them to undertake demand response.

- **Over-incentivising demand response**

The AEMC's proposed Rule Change cannot 'over-incentivise' demand response or drive 'too much' demand response. The Rule Change allows the wholesale energy market to provide price signals that will encourage an efficient level of demand response. If the wholesale electricity price is lower than the value of demand response at a particular point in time, demand response will not be dispatched.

- **Baselines and gaming**

While AEMO will need to develop robust baseline methodologies, the organisation can draw on numerous successful international examples to support this process. A robust baseline methodology should prevent gaming by ensuring that an energy user would have to substantially inflate their energy use for long periods of time in order to game the DRM. In other words, energy users would make a net loss from attempting to 'game' the DRM. We encourage AEMO to consult with consumer groups, potential DRSPs and the energy industry to develop baselines can only enhance the integrity of the demand response mechanism.

- **Hedging**

Retailers optimise their hedging positions based on their expectations around supply and demand, and adjust their hedging positions multiple times in a year in response to changes in demand, supply and information. Retailers will likely adjust their hedging positions in response to an increase in the level of demand response, and should not be materially worse off as long as they have access to information to help them adjust their positions. Accordingly, AEMO or another body should invest in research to help retailers adjust to an increase in demand response in the NEM.

- **Increased competition**

The creation of DRSPs as a category of service provider will increase the competition that generators face in the wholesale electricity market and that retailers face in demand response service provision. *This is a benefit of - rather than a problem with - the proposed Rule Change.* Under the Rule Change, where a retailer is not well-positioned or inclined to offer demand response services, their customers will have the opportunity to engage a DRSP. However, leading retailers that are well positioned to offer attractive demand response services will continue to do so.

In summary, the EEC supports the direction of the AEMC's Draft Determination, and encourages the AEMC to continue to engage with consumers, retailers and demand response experts to optimise the details of the Draft Determination. We look forward to continuing to engage with the AEMC on this matter. For further information please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely



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