



Wholesale demand response mechanism draft rule

Draft determination for *Wholesale demand response mechanism* rule change request published

The Australian Energy Market Commission (AEMC) has released a draft rule determination setting out a series of changes to the National Electricity Rules (NER) to facilitate wholesale demand response in the national electricity market (NEM), principally through implementing a wholesale demand response mechanism.

Providing consumers with more opportunities to provide demand response

The opportunity to introduce a wholesale demand response mechanism at this time arises because:

- Evolving technologies are such that more consumers want to and can participate directly in the wholesale market. The rule change requests received by the Commission, and the subject of this determination, highlight a growing interest across industry for the wholesale market to accommodate consumers who are able to engage in the wholesale market.
- Wholesale demand response may contribute to promoting reliability and security in a more affordable way than peaking generation.

The draft rule allows third parties to participate directly in the wholesale market as a substitute for generation, and be paid for providing this type of wholesale demand response. They will be able to compete with retailers in providing demand response. The draft rule also makes a number of complementary changes to increase the transparency of other types of wholesale demand response.

The draft rule is made in response to three rule change requests made to the Commission from a wide range of stakeholders, including industry, governments and representatives of consumers. The implementation date for the draft rule allows for AEMO to make the necessary systems changes to accommodate the mechanism in the lead up to its start. As such, wholesale demand response would start being dispatched from 1 July 2022.

Overview of draft determination

The draft rule puts in place a number of changes to introduce a wholesale demand response mechanism. The draft rule:

- introduces a new market participant category, a demand response service provider (DRSP)
- places obligations on DRSPs that, as much as practicable, replicate those applied to scheduled generators, for example, similar information provision obligations
- sets out a process for having baseline methodologies determined and applied
- provides for DRSPs to be settled in the wholesale market for demand response
- makes additional changes to related aspects of the NER, such as the demand side participation information provisions, to improve the integration of the demand side.

DRSPs would need to participate in central dispatch in a transparent, scheduled manner. Consequently, DRSPs will have a number of obligations and incentives consistent with the obligations imposed on scheduled generators. These obligations are key to maintaining the integrity of the central dispatch and price setting process, as well as increasing the transparency of the demand side of the market.

The draft rule also sets out a framework which captures the benefits of having a central body (i.e. AEMO) determining the baseline, while also allowing for innovative approaches to baseline determination to be developed over time.

The Commission has also developed a settlement model which would reduce the upfront costs for consumers and market participants. This model would allow retailers to continue to bill customers based on actual consumption, thereby significantly reducing the changes required to retailer billing systems and the associated implementation costs. It also reduces the scope of the changes required to AEMO's settlement systems.

The Commission has determined to not make a draft retail rule, as a broader consideration of the appropriate energy specific consumer protections is required. Without having holistically considered the appropriate protections, the Commission does not consider that it would be appropriate to allow small customers to participate in the wholesale demand response mechanism at this time. The Commission has committed to undertaking a review, starting early 2020, of *if* and *what* energy-specific consumer protections would apply to non-traditional energy service providers, including demand response providers. It may be appropriate to revisit the role of small customers in the mechanism once this review has been completed. Small consumers will also continue to be able to participate in wholesale demand response as they do under the existing arrangements.

The substantive parts of the rule implementing the wholesale demand response mechanism are proposed to commence on 1 July 2022. This approach attempts to balance the benefits of the mechanism with the ability of AEMO and market participants to manage the transitional requirements and interactions with other regulatory reforms. Some aspects of the draft rule which relate to specific processes or matters unrelated to the implementation of the mechanism will commence earlier.

Two-sided market is the long term fix

The electricity system will continue to transform and become increasingly variable as demand side devices and generation sources become more flexible and responsive. In light of this, the electricity system and the associated market framework will need to continue to adapt to make sure we continue to have electricity market outcomes that are in the long-term interests of consumers.

In the longer term, the Commission considers that moving to a two-sided market characterised by the active participation of the supply and demand side in dispatch and price setting will assist the NEM in effectively evolving and transitioning to a future NEM characterised by increased variable supply and more flexible, price responsive demand.

The process of developing a two-sided market, and the associated transition path should start. In the meantime, the draft rule will assist in providing greater opportunities for wholesale demand response and the latent flexibility in consumer demand that remains under-utilised. It would also promote increased consumer engagement. This should subsequently allow for a transition to a two-sided market when technology is mature enough and a clear path has been determined.

Consultation

The Commission invites submissions on this draft rule determination, including the more preferable draft rule, by 12 September 2019. The Commission will be holding detailed workshops with stakeholders to go through the draft amending rule. Stakeholders can register for these workshops on the project page.

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