

12 September 2019

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

Lodged via the AEMC website

Dear Mr Pierce

**WHOLESALE DEMAND RESPONSE MECHANISM (ERC0247): DRAFT DETERMINATION**

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 6,000 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to provide comment on the Australian Energy Market Commission's (AEMC's) draft determination on the wholesale demand response mechanism (WDRM) rule change. Demand response will be an important element in the future electricity market alongside renewable generation, energy storage, stronger interconnection and energy efficiency. An increase in demand response in the National Electricity Market (NEM) will likely support lower prices and assist in the reliability of the system while potentially contributing to the decarbonisation of the grid through providing an alternative to peaking fossil fuel generators in periods of high demand.

The CEC broadly supports the WDRM outlined in the draft determination. We believe the AEMC's approach is measured and has appropriately considered the many stakeholder concerns that have been raised through this rule change process as well as through the history of discussions surrounding demand response over the last few years. The mechanism intends to facilitate greater levels of wholesale demand response whilst limiting the costs and impacts on the market of the regulatory change. This submission will make several high level supportive and constructive comments regarding the key elements of the WDRM.

The CEC supports the creation of the Demand Response Service Provider (DRSP) participant category. Currently, demand response is only accessible to consumers through alternate demand response arrangements provided by their current retailers<sup>1</sup>. Allowing new entrant third parties to provide wholesale demand response services should encourage and therefore increase competition in the demand response market, thus contributing to lower wholesale prices. Flexibility and balance in generation and wholesale demand response is particularly important in times when the supply and demand balance is tight and prices are high.

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<sup>1</sup> AEMC, Wholesale Demand Response Mechanism draft determination, July 2019, p ii, available at <https://www.aemc.gov.au/sites/default/files/2019-07/Draft%20determination%20-%20ERC0247%20-%20Wholesale%20demand%20response%20mechanism.pdf>

We also support the replication of the scheduled generator framework (as far as practicable). Considering DRSPs as scheduled generators is a sensible approach that is consistent with international markets and would allow the Australian Energy Market Operator (AEMO) visibility over demand response within the market. Treating DRSPs as scheduled generators will allow the DRSP to be able to set the wholesale market price and allow consumers more control to respond to price signals in the market.

The CEC also supports the requirement that DRSPs face the same set of obligations and incentives as those imposed on scheduled generators, including compliance with dispatch targets and incurring Frequency Control Ancillary Services (FCAS) contribution factors for deviating from dispatch targets. However, we note there may be concerns regarding causer pays factors for the varying types of loads that will operate under this mechanism now and in the future once aggregated distributed energy resources (DER) can be included. We suggest the AEMC consider how loads that do not have consistent ramp rates or cannot respond to dispatch signals, such as aggregated DER, comply with AEMO's dispatch ramp rates to avoid these loads attracting unavoidable causer pays penalties.

One of the most complex elements of the WDRM is the establishment of baselines. The use of baselines for the measurement of counterfactual energy use is an imperfect science with legitimate concerns regarding their accuracy. We note that AEMO has experience in producing baselines through various trials such as the Australian Renewable Energy Agency (ARENA) funded Demand Response reliability and reserve trader (RERT) trials<sup>2</sup>. Given their experience, the CEC considers it appropriate that AEMO develop the first set of baselines with the aim that these be improved over time through continued refinement, yearly assessment and the ability for new methodologies to be submitted.

The CEC notes the AEMC's desire for AEMO to develop accurate baselines that are free from bias<sup>3</sup>. Ensuring baselines are completely free from bias implies that AEMO has some level of control over when a DRSP decides to bid in the wholesale demand response. It may be difficult for AEMO to meet this requirement.

The proposed settlement structure is a pragmatic approach to ensuring that retailers are made whole following wholesale demand response dispatch. However, it is important that the AEMC consider how its proposed settlement framework will account for retailers that offer their customers spot price pass through contracts. Retailers that offer these contracts are unlikely to be made whole via the proposed settlement framework. The CEC understands stakeholders have raised these views directly with the AEMC via the public workshops.

It is also important that the reimbursement rate is set at a level that is as accurate as practically possible to compensate retailers for hedging the wholesale spot price for that customer. The reimbursement rate should not under compensate or overcompensate retailers for managing this risk.

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<sup>2</sup> ARENA, Demand Response RERT trial, March 2019, available at <https://arena.gov.au/assets/2019/03/demand-response-rert-trial-year-1-report.pdf>

<sup>3</sup> AEMC, Wholesale Demand Response draft determination, July 2019, p 61, available at <https://www.aemc.gov.au/sites/default/files/2019-07/Draft%20determination%20-%20ERC0247%20-%20Wholesale%20demand%20response%20mechanism.pdf>

The CEC notes the implementation date of July 2022 has been set due to the timeframes required by AEMO to implement the system changes necessary to facilitate wholesale demand response. The draft determination notes that AEMO will continue to consider if the July 2022 implementation date can be revised<sup>4</sup>. While we understand there are legitimate reasons for the long lead in time for the implementation of the WDRM rule change, the CEC supports AEMO continuing to assess whether the implementation date can be feasibly moved forward in consultation with industry. If AEMO deems that implementation could be moved forward, the process will need to be clear and consultation will be required with relevant stakeholders to ensure stakeholders have adequate time to make the necessary system changes.

The 2019 Electricity Statement of Opportunities (ESOO) notes that the supply and demand balance will be tight over the 2019-2020 summer period, particularly in Victoria, and will remain so over coming summers<sup>5</sup>. If AEMO decides that it is possible to move forward the demand response implementation date, this may contribute to alleviating the tight supply and demand balance over coming summers.

The CEC strongly supports the AEMC considering the required energy specific consumer protections that are required to implement a draft retail rule to allow small scale consumers to participate in the wholesale demand response mechanism. We suggest that this review is prioritised and completed to ensure that small scale consumer participation in the mechanism does not have a separate implementation date beyond the proposed July 2022 date.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact Tom Parkinson, Policy Officer, on (03) 9929 4156 or [tparkinson@cleanenergycouncil.org.au](mailto:tparkinson@cleanenergycouncil.org.au) or myself, as outlined below.

Yours sincerely,



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<sup>4</sup> AEMC, Draft Determination Wholesale Demand Response Mechanism, 18 July 2019, available at <https://www.aemc.gov.au/sites/default/files/2019-07/Draft%20determination%20-%20ERC0247%20-%20Wholesale%20demand%20response%20mechanism.pdf>

<sup>5</sup> AEMO, NEM Electricity Statement of Opportunities, August 2019, p 3, available at [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning\\_and\\_Forecasting/NEM\\_ESOO/2019/2019-Electricity-Statement-of-Opportunities.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/NEM_ESOO/2019/2019-Electricity-Statement-of-Opportunities.pdf)