

12 September 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 6, 201 Elizabeth Street,
Sydney NSW 2000.

Submitted online: www.aemc.gov.au/contact-us/lodge-submission
Your reference - ERC0247

Dear Mr. Pierce

AEMC Rule Change Consultation: Wholesale Demand Response Mechanism

Thank you for the opportunity to provide a submission in response to the Australian Energy Market Commission's (AEMC) Rule Change Consultation covering the National Electricity Amendment (Wholesale Demand Response) Rule 2019 and the National Energy Retail Amendment (Wholesale Demand Response Mechanism) Rule 2019.

Momentum Energy is a 100% Australian-owned and operated energy retailer. We pride ourselves on competitive pricing, innovation and outstanding customer service. We retail electricity in Victoria, New South Wales, South Australia, Queensland and the ACT. We offer competitive rates to both residential and business customers along with a range of innovative energy products and services. We also retail natural gas to Victorian customers.

Momentum Energy is owned by Hydro Tasmania, Australia's largest producer of renewable energy.

Overview of Proposed Demand Response Mechanism

Reducing demand for electricity by customers decreasing their consumption below their normal operational use will support periods in the market where generation is at capacity or constrained. If this demand reduction is accurately measured and capable of being scheduled into the market then it could be argued this demand reduction is of equal value to generation.

Demand response products are currently being offered by Momentum and other retailers, under specific contract supply provisions, to large customers but these contracts are not transparent to the market. Momentum is therefore not convinced that the take up of demand response contracts delivered under this proposed mechanism will be significant

and therefore we support the general approach taken by the AEMC in this draft rule change to:

- Restrict the initial application of this demand response mechanism to large customers;
- Select a solution that allows retailers to continue to bill their customers based on their actual consumption to minimise retail billing system changes; and
- To seek a least cost approach¹ for this initial wholesale demand response mechanism.

We are supportive of the proposal to introduce a new market participant the Demand Response Service Provider (DRSP) to be the party responsible for offering and managing demand contracts with customers and the market. However we are concerned that the Draft Rules will expose retailers to additional risk that they are not suitably compensated for and risk that is not equally borne by the DRSP or any other party.

Both the Demand Response (DR) reimbursement rate and the baseline methodology suggested, under this draft rule change, present new unfair risks for retailers that if not suitably addressed will likely result in increased costs being recovered from either the customer participating in the DRM or smeared across all of the retailers' customers.

This potential cross subsidy, in the retail market, is not appropriate and should be avoided. Momentum is of the view that retailers should remain whole in the application of any demand response mechanism and that there should be no presumption that retailers should simply wear any additional risks to allow this interim DR mechanism to be implemented.

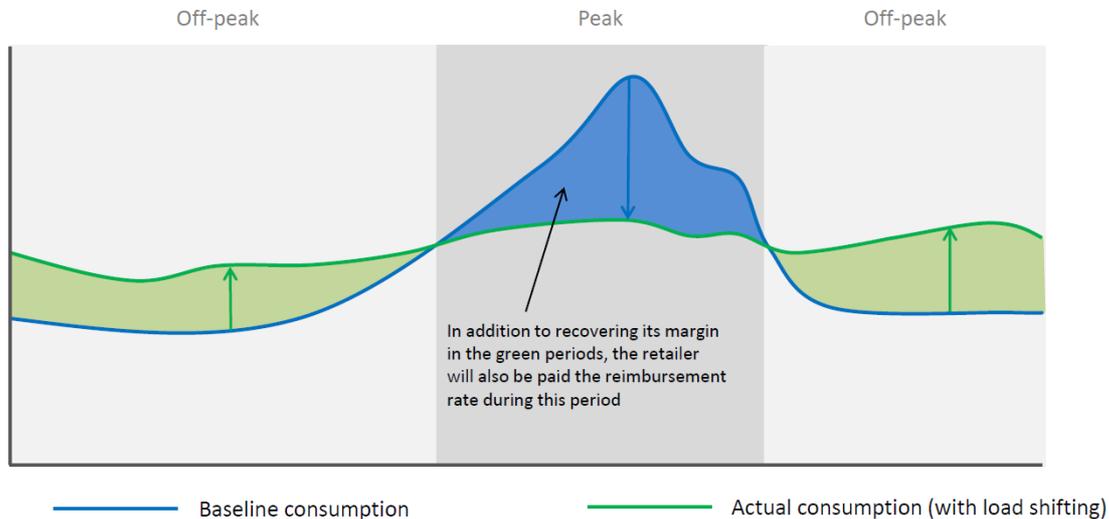
We also do not agree with the assumption, put forward at the first AEMC workshop to justify retailers' accommodating the DRM that any retail margin lost by retailers during the peak periods, when the DRM will operate, will result in increased consumption in the adjacent off peak periods where the DRM will not be called upon. We do not believe this will always be the case as some businesses may:

- Shift production to alternative plants;
- Implement peak demand process operational changes specific to the peak periods;
- Utilise onsite alternative generation plant during peak periods; or
- Simply forgo production in high price periods.

¹The DRM model proposed by PIAC, TEC and TAL would have resulted in higher costs being imposed on retailers.

Below - Slide presented by the AEMC Wholesale Demand Response Mechanism Draft Determination Workshop #1

If a customer provides demand response during peak periods and shifts that load to off-peak periods, the margin the retailer does not recover in the blue period will instead be recovered via increased consumption by the customer in the green periods.



DR provided Reimbursement Rate

The AEMC has requested comment on the reimbursement rate or alternative methodologies. One option discussed would be for the reimbursement rate to be the customers' individual retail contract rate requiring the Australian Energy Market Operator (AEMO) to store and update this rate. If a DRSP was also a separate retailer this would create unacceptable confidentiality and competition concerns.

It has been proposed that the reimbursement rate be based on the average spot prices for the previous 12 months determined on a quarterly basis. Momentum is concerned that this method may not recover the cost associated with a rising market that is contemplating constraints or increased demand. It is likely that DR will be called upon during peak times and that retailers often purchase wholesale contracts over the short term to adjust to current conditions and customer portfolio changes. Therefore we suggest that it would be more appropriate to calculate the rate based on an independently determined forward curve of the wholesale market but this also needs to reflect the short term hedges that retailers also purchase and a retail risk margin. In order to comply with the National Energy Objective all of a retailer's costs must be recovered with any amendment to the rules.

To adhere to the National Energy Objective the AEMC must ensure that the risk of any under recovery for retailers is minimal. Retailers will undoubtedly manage any residual DRM risk by including additional customer contract terms. These additional terms may cause large customers to disengage from the DRM mechanism and result in even less uptake.

Baseline Determination

The accuracy of the baseline determination will be critical for the success of this mechanism. It is disappointing that the AEMC has not provided any detail on the principles under which AEMO will be expected to assess the proposed baseline methodologies and the accuracy/bias parameters. The baselines determined will always be an estimate and hence

any inaccuracy will impact the retailers forecast load and any associated financial hedges they purchase.

The ongoing accuracy of baselines and baseline methodologies will be an onerous obligation for AEMO and the AER that will undoubtedly require additional resources which will add further costs to all customers. Momentum is of the view that the financially responsible market participant (FRMP) should also have the ability to approve or disapprove a baseline methodology for each site (NMI) as they will incur some of the risks associated with an inaccurate baseline.

Baseline Information Provision

Momentum believes that retailers will require the following additional information, should the DRM be introduced, in order to suitably manage their wholesale and retail portfolio load risk and to provide adequate market transparency:

- Notification of existing and new customers that have appointed a DRSP and historical load information covering the DR load and actual load;
- Advice on the methodology used to determine each customer's baseline consumption;
- Real time advice on when each customers DR load is dispatched; and
- Advice on whether the customer's DR load will result in any increase in load at other times.

Implementation timeline

The Draft Rule Determination proposes an implementation date of 1 July 2022 which is largely driven by the timeline to change AEMO systems. AEMO and market participants have comprehensive system changes scheduled to deliver global settlement, five minute settlement and the retailer reliability obligation and it would be inappropriate to complicate these changes with the DRM until they were implemented.

Momentum notes at the first AEMC workshop the eagerness by some stakeholders for a faster DRM implementation timeline or for a limited early trial to take place. We do not support any change to the proposed timeline as the DRM imposes new undefined risks onto retailers. Moreover, Momentum is currently offering demand response contracts to large customers fulfilling this perceived market gap. The integrity of the market and AEMO's current work plan should not be exposed to any increased risk for this "interim" DRM to be implemented.

Summary

We understand the positive prospects that this rule change may deliver by supplementing some of the demand supply imbalances that are occurring in our wholesale electricity market. Nevertheless Momentum is concerned that there are several aspects of this rule change which are not fully defined and have the prospect of exposing retailers to undefined risks and costs. We are concerned that the risks of both the baseline determination and the reimbursement rate will only be fully defined after the decision to proceed with the rule

change has already occurred. We urge caution with moving forward until retailers are given confidence that they will remain whole in all aspects of the application of the DRM.

The DRM will also impose significant system and administration costs onto AEMO and we suggest that the AEMC should conduct a cost benefit assessment of this change to ensure it justifies the work involved especially as it is only a short term interim solution.

Should you require any further information with regard to this submission, please don't hesitate to contact me on 0478 401 097 or email randall.brown@momentum.com.au.

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager