



**Government of South Australia**  
Department for Energy and Mining

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

**Wholesale Demand Response Mechanism – Draft Determination  
(ERC0247)**

Dear Mr Pierce

The South Australian Government thanks you for the opportunity to comment on the Wholesale Demand Response Mechanism – Draft Determination.

As stated in our rule change proposal, the South Australian Government considers creating a mechanism that transparently transfers the value of the wholesale demand response will create competition in the offering of demand response products and unlock demand response potential.

We therefore welcome the Commission's draft decision to implement a wholesale demand response mechanism.

Demand response mechanisms have been debated for many years. We consider the Commission's draft determination a positive step on the transition towards a two-sided market. With the closure of coal fired power plants and the transition to a carbon constrained future, wholesale electricity markets are changing rapidly. Effective frameworks to ensure a two-sided market are required to avoid the significant risk of over investment in electricity infrastructure to the detriment of consumers.

South Australia firmly believes that an increased utilisation of wholesale demand response can more efficiently contribute to reliability compared to further generation investment. As these investment decisions are being made now, we consider any further delay in implementing these mechanisms carries considerable risk.

We consider that the Rules should promote greater opportunities for consumers to participate in wholesale demand response than they experience today. This will result in increased competition in the wholesale electricity market which may potentially contribute to a decrease in prices and improved reliability in the electricity market. For these reasons we encourage the Commission to continue to work with AEMO to consider whether the 2022 implementation date can be revised forwards.

Despite generally positive feedback to the Commission's draft, we do note the views of some market participants throughout the rule change process who consider that sufficient wholesale demand response is already being undertaken in the market, and that the existing regulatory frameworks therefore do not present a barrier to this occurring.

We argue that, in the current market, the offering of wholesale demand response by retailers is not occurring on any material scale. As stated in our rule change proposal, the current rules can create a disincentive for retailers to undertake demand response. The payback period for setting up demand response services can be significantly longer term than the terms of a retail contract. Engaging a consumer to provide wholesale demand response has upfront and ongoing costs such as the costs of engaging customers, explaining what demand response is, installing necessary equipment and agreeing to conditions. Under the current rules if a customer subsequently changes retailer, the retailer that helped them to set up their demand response capabilities is exposed to the risk of not recovering their costs. This issue is overcome by the draft determination.

As we know, it is extremely difficult for many energy consumers to gain value from their demand response capacity without the agreement of their retailer. Research presented by the Public Interest Advocacy Centre (PIAC) at the recent pre-final rule hearing revealed that engagement with all retailers in New South Wales discovered only one small retailer was offering a demand response service to households when research was conducted in 2018 and again in 2019.

With regard to larger consumers, which are the focus of the Commission's draft determination, the Department understands that this customer segment in South Australia only receives an offer to supply from one or two retailers. This does not place these customers in a strong negotiation position if they are seeking to derive value from their demand response capability.

While the customer's current retailer may not value the demand response capability, there may be others who do, and this may benefit the electricity system as a whole. This is why we consider the implementation of the draft rule important.

There are a number of components of the draft determination which we believe help overcome the problems identified in the rule change proposal.

Many aspects of the Commission's draft determination are consistent with the proposal presented by the South Australian Minister for Energy and Mining in October 2018, and the subsequent submission from the Department in December 2018 which provided further clarity on the option of a transitional model. The creation of the Demand Response Service Provider (DRSP), the ability for the DRSPs to submit bids in to the wholesale market and the scheduling of demand response offers in a manner similar to generators are all generally consistent with our proposed approach.

The proposed determination of the baseline is also supported by the Department given the flexibility provided in the Commission's draft determination. Our initial request proposed the Commission determining high level principles for the baseline

methodology, including that it be flexible and capable of change over time. We also proposed it to be centrally determined.

The creation of a significant role for the Australia Energy Market Operator in the creation and assessment of baselines is therefore supported. Further, the Commission's proposal to enable the continuous improvement of baseline methodologies is also considered appropriate.

We note that the materiality of the risk of perverse incentives in the determination of baselines is often overstated. Considering that large consumers core business is not in the electricity market, they are unlikely to be driven to capture electricity market revenue at the detriment of their core business. The determination of feasible baselines has been demonstrated in other markets which proves the issues can be overcome. We consider the Commission's proposed involvement of AEMO should assist in managing any risks.

The Department also commends the Commission on the manner in which settlement is dealt with under the draft proposal. We consider the model proposed comprises benefits similar to the transitory model proposed by South Australia. Importantly, by billing customers on actual consumption the draft determination should require minimal billing systems changes. This option seeks to keep implementation costs to an efficient level which is an outcome that should be broadly supported.

The Commission's proposed model also introduces a reimbursement payment which enables retailers to manage their exposure to the wholesale market for the baseline consumption level that the retailer is not recovering from its customers. While this is supported, we do note there are a number of ways in which retailers can hedge, and the value associated with these options range. While some retailers may have high costs as a result of their hedging strategy, others may not.

While it will be important for the Commission to consider many factors when determining the appropriate methodology for the determination of the reimbursement rate, we do agree with the Commission's view that any discrepancy between the actual retail tariff and the reimbursement rate for the customer should be small compared to the likely high spot prices when the demand response is in effect. It is also true that some retailers may over-recover in some cases and then under-recover in others. Outcomes will approximately balance over time. We therefore agree that the benefits gained from the introduction of reimbursement rate outweigh any minor discrepancies that may occur.

Finally, we note the Commission's position to exclude small consumers from participation in the mechanism in the short term whilst a broader review of consumer protections takes place.

The Department agrees that appropriate consumer protections for small customers are required prior to the implementation of the wholesale demand response mechanism, and the introduction of the Demand Response Service Provider. So, while we understand the Commission's reasoning for not immediately allowing small customer participation in the mechanism, we strongly urge the Commission to undertake the necessary review of the consumer protection framework as soon as



possible to enable any required changes to the framework to be undertaken to enable the small customer sector to access the benefits of the wholesale demand response mechanism. Technology innovation for small customers is occurring rapidly and this could enable small customers to be a significant contributor to demand response and efficient wholesale market outcomes. It is important that the rules provide a mechanism for this value to be captured.

While we encourage the Commission to review the appropriateness of the Australian Consumer Law and National Energy Customer Framework for the application to customers of DRSPs, another possible way of developing a relevant consumer protection framework may involve review of the New Energy Tech Consumer Code.

As you are aware, the COAG Energy Council requested industry, consumer groups and other stakeholders to develop the industry-wide Code of Conduct for sellers of distributed energy resource products, systems and services. The Department supports the Commission assessing the proposed voluntary New Energy Tech Consumer Code as an alternate way to address consumer protections for new energy service providers. The Department encourages the Commission to consider the matter of small consumer participation in the wholesale demand response mechanism as a priority.

The South Australian Government thanks the Commission for the work undertaken on the wholesale demand response mechanism rule change to date, and looks forward to further engagement during this important rule determination process.

Should you have any questions in relation to this submission, please contact Ms Rebecca Knights, Director - Energy Policy & Projects, Energy and Technical Regulation Division, on (08) 8429 3185.

Yours sincerely



Vince Duffy

Executive Director  
Energy and Technical Regulation  
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