



Demand Response Mechanism and Ancillary Services Unbundling: Draft Determination

The AEMC has issued a draft determination on a rule request to create a standardised demand response mechanism in the wholesale electricity market, proceeding instead with a more preferable draft rule change to improve competition in the provision of ancillary services that will help maintain power system security.

Background on demand response already taking place in the market

Reductions in energy consumption at certain times and in the right places can create savings in the costs of meeting Australia's energy needs - in particular, the need for investment in peak generation and more poles and wires. Where such investments are efficiently avoided the overall costs of supplying electricity can be reduced; along with reduced pressure on the need to provide alternatives to intermittent energy generation.

The 2012 AEMC Power of Choice Review set out a market-wide reform program to support demand-side participation in energy markets, giving both large and small electricity consumers more opportunities to understand and take control their electricity use and costs.

These reforms have included new network pricing arrangements, access to energy consumption information and expanding competition in the provision of metering services. Each of these recommendations have been considered as rule change requests with resulting market reforms in place and due to take effect from July 2017.

The draft determination

The Commission's draft determination has been released for public consultation. It proposes a draft rule that would allow a new type of market participant – a market ancillary service provider - to provide frequency control ancillary services (FCAS) to the market. The draft rule would effectively unbundle the provision of ancillary services from the provision of energy to open up competitive opportunities for new suppliers to offer services to help the market operator, AEMO, control the frequency on the electrical system. Deeper and more diverse FCAS markets have the potential to lead to more efficient prices, minimizing the cost of these services. This is consistent with the rule request.

Frequency Control Ancillary Services (FCAS) are procured by AEMO from market participants to keep power demand and supply continuously in balance. When system frequency is too low it is managed by increasing generation or decreasing demand.

Do the rules need to be changed?

The Commission has determined that demand response can and is already happening without the need for a costly, standardised, wholesale market-wide demand response mechanism.

Market developments and innovation by demand side management service providers means that large customers, retailers, demand side management service providers and network businesses can already enter commercial arrangements directly with one another or access relatively competitive demand management services. There are no barriers to the continued proliferation of demand response that has taken place to date.

Currently, there are at least 21 businesses capable of providing a variety of products and services across all major jurisdictions in the National Electricity Market. These businesses have evolved without a separate wholesale market mechanism and already enable large customers to be exposed to the spot price. Surveys and market estimates suggest that retailers have 235MW and demand side management service providers an additional 200MW demand response capacity under contract. There has been an increase in large customers opting to use their demand response capabilities. There is a consistent view between retailers and demand side management service providers that this form of demand side participation is likely to increase in the future.

The ability for consumers to exercise their demand response is likely to increase as the market reforms commenced by the Power of Choice review, particularly those in relation to distribution network pricing and metering services which start to take effect from 1 July 2017.

In determining not to implement the requested mechanism, the Commission has found that it would result in a complex and costly framework to facilitate what can already take place, and that it would provide no extra benefit over and above current market arrangements beyond the redistribution of money between retailers, customers, and demand response aggregators.

A rule change to unbundle ancillary services can increase competition and electricity security without additional cost for consumers.

The Commission is proposing to facilitate a more competitive ancillary services market to complement the customer-driven demand that is already underway. This would enable new entrants to offer demand services to help AEMO maintain the secure operating state of the power system.

The draft rule provides for a new type of market participant – a market ancillary service provider - to offer frequency control ancillary services (FCAS). A market ancillary service provider would not be required to purchase electricity from the wholesale market for a customer, as a retailer currently does.

Allowing for this 'unbundling' of ancillary services from the retail supply of electricity is likely to increase the levels of demand side participation in FCAS markets. Unbundling would increase levels of competition among, and the diversity of, suppliers of ancillary service in FCAS markets and lead to more competitive FCAS prices.

Next steps

Submissions on this draft determination will be considered before the AEMC makes a final determination on 24 November 2016. Submissions on the draft determination close on 13 October 2016.

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