

26 April 2017

Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear Mr Pierce

Rule Change Request – Classification of Loads as Ancillary Service Loads

The Australian Energy Market Operator (AEMO) requests the Australian Energy Market Commission (AEMC) consider making a rule change under section 91 of the National Electricity Law.

AEMO submits this rule change proposal should be treated as non-controversial under section 96 of the National Electricity Law.

The rule change proposal is attached. In summary, AEMO proposes to expand the coverage of loads eligible to provide market ancillary services to include loads that are not market loads. The rule also proposes some minor clarifications to the relationship between loads and services in Chapter 2.

AEMO considers this rule change is required to fully implement the AEMC's policy intent in the National Electricity Amendment (Demand Response Mechanism and Ancillary Services Unbundling) Rule 2016 No.10, which commences on 1 July 2017. Accordingly, AEMO requests this proposed rule be finalised by the same date, in order to avoid the need for transitional arrangements.

Any queries concerning this rule change proposal should be directed to Brian Nelson on 02 9239 9132 or brian.nelson@aemo.com.au.

AEMO respectfully requests the AEMC give consideration to making this rule as proposed.

Yours sincerely



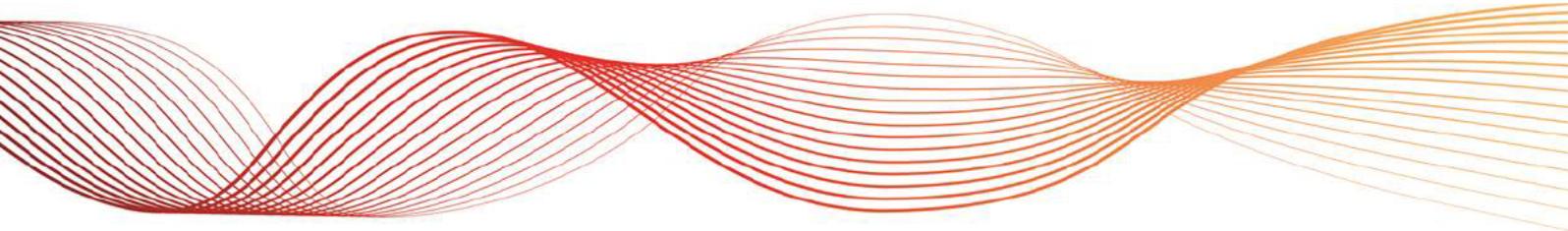
Peter Geers
Executive General Manager Markets

Attachments: Rule Change Proposal



ELECTRICITY RULE CHANGE PROPOSAL

CLASSIFICATION OF LOADS AS ANCILLARY SERVICE LOADS





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1. SUMMARY

In November 2016, the AEMC made a rule to provide for a new type of market participant – a Market Ancillary Service Provider (MASP). This new participant is able to offer appropriately classified ancillary services loads or aggregation of loads into frequency control ancillary service (FCAS) markets. The MASP need not be the retailer. By not requiring the provider to purchase electricity from the wholesale market for a customer, the provision of demand response services becomes independent of, or ‘unbundled’ from, retailers.

AEMO is currently developing systems and procedures to implement the rule for its commencement on 1 July 2017. AEMO has identified an issue in the new rule that will render loads that are not market loads ineligible from participating. This would exclude loads supplied by the Local Retailer, an outcome which does not appear to have been intended by the AEMC.

The purpose of the proposed rule is to reflect that all loads that meet the technical requirements to provide FCAS are eligible to be classified as ancillary service loads by a MASP.

The proposed rule is expected to expand the coverage of loads eligible to provide market ancillary services to include loads that are not market loads. The rule also proposes some minor clarifications to the relationship between loads and services provided by those loads.

AEMO is requesting that this non-controversial Rule be made by 1 July 2017 to avoid unnecessary transitional costs associated with implementation at a later date.



2. RELEVANT BACKGROUND

2.1 Current Framework

The National Electricity Market (NEM) market ancillary service provisions were created to allow spot market provision of frequency control ancillary services (FCAS) that is integrated with the five-minute energy market. The registration of facilities to provide FCAS require the financially responsible market participant for the facility to be the person who classifies the facility. Ancillary services unbundling allows third parties to classify loads to provide FCAS.

This Rule Change Proposal seeks to expand the scope of loads covered by the amendment rule¹.

2.2 Narrative of Issue and Proposed Changes

Both the National Electricity Rules (Rules) and the amendment rule require units of load providing ancillary services to be market loads. Market loads can only be classified at:

- (a) connection points that are not supplied by the Local Retailer; or
- (b) connection points that connect the local area of the Local Retailer to another part of the power system.

AEMO's power to classify loads is restricted to the eligibility criteria for unbundled ancillary services, which limits the classification to market loads.

A change to the amendment rule is proposed to allow a load that

- is, or can be, supplied by the Local Retailer within the local area, and
- meets the technical requirements of the amendment rule

to be eligible to provide market ancillary services.

This will remove an inappropriate barrier to the registration of loads for unbundled ancillary services and extend the market providing increased benefits for consumers.

AEMO has also identified a minor issue with the relationship between the physical load and the service provided by the load. AEMO proposes a change to make the amendment rule consistent with other provisions in the Rules.

¹ That is, National Electricity Amendment (Demand Response Mechanism and Ancillary Services Unbundling) Rule 2016 No.10.



3. STATEMENT OF ISSUES

3.1 Current Rules

Under clause 2.3.4 of the Rules:

- (a) If electricity, *supplied through the national grid to any person connected at a connection point*, is purchased other than from the *Local Retailer* that load at the *connection point* may be classified by that person or, with the consent of that person, by some other person as a *market load*.

Under clause 2.3.5 of the Rules:

- (a) If the *Market Customer* in respect of a *market load* wishes to use that *market load* to provide *market ancillary services* in accordance with Chapter 3, then the *Market Customer* must apply to AEMO for approval to classify the *market load* as an *ancillary service load*.

Under clause 2.3.AA.1(a) of the amendment rule, to be eligible for registration as a Market Ancillary Service Provider, a person must:

- (1) obtain the approval of AEMO to classify *market load connected to a transmission or distribution system* as a *market ancillary service* by:
- (i) identifying units of *market load* under its ownership, operation, or control;
 - (ii) demonstrating how *market load* identified in (i) are under its ownership, operation or control; and
 - (iii) demonstrating that the *market load* identified in (i) has the required equipment to be offered as a *market ancillary service*;
- (2) satisfy AEMO that each *market load* referred to in subparagraph (1) will be capable of meeting or exceeding the relevant *performance standards* and specifications to AEMO's satisfaction.

It is a fundamental requirement of these provisions that only market loads are eligible to be classified to provide market ancillary services, and that electricity purchased from a Local Retailer is not able to be classified as a market load ².

3.2 Issues with the Current Rules

As currently drafted, the Rules and the amendment rule do not permit AEMO to approve classification of loads that are not market loads as ancillary service loads. AEMO considers this limits the coverage of the ancillary services unbundling rules in a way that was not contemplated by the proponent of the demand response mechanism and ancillary services unbundling rule change proposal, in submissions or by the AEMC in its consideration of the rule change proposal.

The current rules for the energy market are based on the principle of settlement-by-difference, where retail customers that have elected to retain their Local Retailer are not directly considered in the settlement process³. This definition of market load is used as the foundation for many of the metering and settlement provisions under the rules.

Although treated differently for metering and settlement purposes, a load that is supplied by the Local Retailer is no less capable of meeting the technical requirements of providing a market ancillary service. Therefore, AEMO does not consider it appropriate to restrict the unbundling arrangements to only market loads.

² With the exception of connection points on the border of the local area connecting to another part of the power system (clause 2.3.4(h)).

³ Instead, they are settled by calculating to the metered flow at the wholesale connection point (the boundary of the distribution area) minus the energy consumed by connection points that are not with the Local Retailer. Note however that metering for these loads may be included in the calculation of the Net System Load Profile if interval metering data is available.



Under the current arrangements, a Local Retailer would only be able to classify a load as an ancillary service load that is connected to a wholesale (transmission) connection point, and not to a distribution connection point. AEMO does not propose at this stage to remove this restriction, as it was not part of the consideration for unbundling. Despite this, it may be possible for a Local Retailer to classify their distribution-connected loads as ancillary services loads by applying to be registered as a MASP.

Without the proposed amendment, AEMO would need to include a confirmation in the registration application process that only market loads have been classified as ancillary service loads.

In addition, there is a drafting inconsistency between the current rules and the amendment rule:

- Clause 2.3.5(a) refers to a “market load to provide market ancillary services”; and
- Clause 2.3.AA.1(a)(1) refers to a “market load ... as a market ancillary service”.

AEMO considers the amendment rule should be consistent with the existing provisions in the Rules.



4. HOW THE PROPOSAL WILL ADDRESS THE ISSUES

The proposed amendment will allow all loads that meet the eligibility requirements for providing market ancillary services to be classified as an ancillary service load.

The proposed amendment will also remove a drafting inconsistency between the Rules and the amendment rule.

The proposed amendment would be implemented as part of AEMO's project to implement the amendment rule. If the amendment is not implemented by 1 July 2017 AEMO will be required to expend resource on managing a transition period. The proposed rule will not require any changes by Market Participants in respect of their systems. Without the amendment Market Participants will be required to manage more complex processes to validate that only market loads are registered as ancillary service loads.



5. DESCRIPTION OF THE PROPOSED RULE

It is proposed to amend clause 2.3 of the amendment rule to refer to loads in respect of Market Ancillary Services Providers and to market loads in respect of Market Customers.

It is also proposed to amend clause 2.3AA.1(b)(1) of the amendment rule to use consistent drafting with clause 2.3.5(a) of the Rules so that loads are used to provide market ancillary services, rather than loads being the service.

There are no other changes proposed. AEMO is developing registration document for Market Ancillary Service Providers on the basis that the proposed rule is accepted in time for commencement of the amendment rule. Transitional arrangements can be made if necessary, noting that this will incur effort and hence cost for both AEMO and MASPs.



6. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE

It is anticipated the proposed change will affect the market in the following ways:

- Remove a barrier to entry
 - The rule will allow loads supplied by Local Retailers in the local area to participate in ancillary service unbundling that would otherwise be ineligible to provide market ancillary services.
 - Removal of this barrier to entry advances the objective by facilitating more efficient investment outcomes in the long term.

- Impact on competition and price impacts on consumers.

Increasing sources of market ancillary services is likely to reduce the price for market ancillary services for consumers.

- Impact on efficient investment in, use and operation of, the power system

It is expected that the proposed rule will, over time, encourage more demand response by increased participation in the market ancillary services. It will also lead to better power system security outcomes by increasing the available resources for provide market ancillary services in the long term.



7. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The cost of implementing the proposed rule is negligible. If the amendment is not made by 1 July 2017 AEMO foresees cost relating to a transitional period in respect of its registration guides and forms.

Different eligibility requirements for load based on the identity of the energy retailer will result in increased costs for prospective MASPs in ensuring their loads are eligible to participate.