



NEWS

Enhancing demand side participation without extra cost

Demand Response Mechanism and Ancillary Services Unbundling: Draft Determination and Preferred Rule

The Australian Energy Market Commission (AEMC) is calling for public submissions on its proposal to create a new type of market participant who can do deals with energy users to offer demand response as a tool to help maintain power system security.

Releasing its draft determination on the National Electricity Amendment (Demand Response Mechanism and Ancillary Services Unbundling) rule request, the AEMC will now start consultation on a preferred rule to facilitate a more competitive ancillary services market.

AEMC Chairman John Pierce said demand side participation in Australia's energy markets, where consumers can choose to change their electricity consumption to avoid periods of high demand and high cost, is already happening.

"There are no barriers to the continued proliferation of demand response that has taken place to date," Mr Pierce said.

"Market developments and innovation by demand side management providers means large customers, retailers and network businesses can already enter commercial arrangements directly with one another or access a relatively competitive demand-side market. At least 21 businesses are providing a variety of products and services across all major jurisdictions in the National Electricity Market.

"Retailers and demand-side service providers expect this to increase in the future. The ability of smaller consumers to exercise their demand response is likely to increase as the latest market reforms started by the Power of Choice review start to take effect from 1 July 2017," he said.

The AEMC's preferred rule released today incorporates aspects of the rule request relating to the need for a more competitive ancillary services market to complement the consumer-driven demand that is already underway.

The draft rule would enable new energy service providers to offer more demand response as ancillary services as an option to help AEMO control electricity system frequency to deliver secure energy.

Mr Pierce said this draft rule change allows for the 'unbundling' of the provision of the ancillary services necessary for a secure power system from the provision of energy. It will also provide a timely opportunity to enable a more diverse group of suppliers to provide frequency control ancillary services (FCAS) at more efficient FCAS prices.

The draft determination has decided not to create a new regulatory mechanism for demand response in the National Electricity Market as it would have increased costs for consumers and provided no extra benefit.

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

Mr Pierce said the proposed demand response mechanism was the last of the Power of Choice recommendations from 2012 to be considered and was no longer needed as other more recent reforms were already allowing increasing demand response opportunities.

These reforms include new distribution network pricing arrangements allowing for greater use of pricing structures and new metering services so consumers can access products that value their demand response.

“We have found that the benefits identified in the rule change proposal can be delivered without extensive costs of the mechanism, which could be as much as \$120m,” Mr Pierce said.

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Glossary

Frequency Control Ancillary Services control power flow in the network and maintain the secure operating state of the power system.

Central dispatch is a process operated by the market operator, AEMO, to continuously balance supply and demand for electricity in the power system. Its objective is to obtain the least cost resources to balance supply and demand, taking into account network and system security constraints that may affect the secure and reliable supply of electricity.

Demand response is all about consumers making informed choices about the quantity and timing of their electricity use so that the value to consumers of energy services is greater than the efficient costs of supplying them. This usually means reducing or shifting energy use in peak periods in response to cost-reflective pricing or other incentives.

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