

23 April 2010

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

ERC0104 - Submission to AEMC
Re: Aggregation of Ancillary Service Loads

Dear Sir/Madam,

Thank you for the opportunity to comment on the important issues raised in the discussion paper.

Energy Response is an aggregator of Demand Side Response, currently working with providers in New Zealand. As such, Energy Response has extensive and direct experience in procurement, aggregation and operational dispatch of smaller loads that form part of an aggregated MAS offer. Our submission is made with the view of improving the provision of FCAS services for all market participants in the NEM.

We will first make some general points to explain our reasoning, then comment on specific questions tabled in the consultation paper.

1. Aggregation

Energy Response applauds and supports AEMO in their rule change request.

In principle, allowing aggregation of ancillary service facilities should improve the reliability of FCAS services, while reducing prices and hence costs to end users.

To further the National Electricity Objective, we should strive to ensure that there is:

- a competitive market for FCAS
- a market-driven pricing function for FCAS
- continual innovation and efficiency in these areas.

Unfortunately, while allowing aggregation of FCAS as proposed is a necessary step, it is not sufficient to achieve these objectives.

2. The problem with forced bundling of FCAS with energy

Under the current rules, only Market Customers can apply to classify a market load as an ancillary services load. In other words, only the party who buys energy from the spot energy market to supply a load can sell that load's ancillary services in the ancillary services markets.

This compulsory bundling is unnecessary, and prevents competitive sourcing of FCAS. The effect of this is to limit participation severely.

We commend the AEMC for realising that AEMO's proposed rule change does nothing to address this critical issue, and for raising it in the consultation paper.

The issues raised in section 5.4 of the consultation paper are real and material.

Electricity end-users are extremely unlikely to choose their retailer on the basis of how they deal with FCAS, as the amount of money they may be able to earn from FCAS is typically very small compared to the amount of money they spend on energy. Given a choice between a retailer who gives a good deal on FCAS, and one who completely neglects FCAS but offers a slightly better energy rate, rational end-users will choose the latter every time.

There is hence no competitive pressure for retailers to deal with FCAS on sensible terms, or indeed at all. Since the sourcing of FCAS requires completely different skills and organisational capabilities to the retailing of energy, it is likely to be seen as an unnecessary distraction by most retailers.

The same argument applies to specialist aggregators: under the proposed rules, the aggregator would have to become a retailer, and win the retail energy supply contract for all of the loads it aggregates. This is not going to happen.

3. Unbundling is a good thing

Unbundling FCAS from energy is not a radical move. It is a natural extension of the introduction of retail competition, which unbundled retailing from network services, to great beneficial effect.

This principle of unbundling is important. It can and should be taken further. If there is no technical reason why some services cannot be treated independently, they should be. Any purely bureaucratic obstacles should be removed. If physical changes, such as the installation of extra meters, are required, then the costs of these should be borne by the access seeker.

Unbundling FCAS from energy will increase competition and improve the provision and efficiency of the FCAS services, creating a more equitable environment for consumers.

4. How to unbundle FCAS from energy

To avoid this compulsory bundling, it must be possible for separate Market Participants to deal with participation of a given load (or generator) in the energy market and in the ancillary services markets.

It may also be necessary to create a new registration category for Market Participants who are financially responsible for ancillary services, but are not retailers.

This will require some changes to AEMO's processes and market systems, but not to those of other participants. Since energy and each of the ancillary services are already treated as independent markets, the systems changes required should be quite small.

The other important consideration is metering: both Market Participants must have access to meter data in a timely and cost-effective manner. This will require changes to the Metrology Procedure.

5. Questions from the consultation paper

How, and to what extent, do the current registration and administrative requirements create an inefficient administrative burden for aggregated MAS providers?

The administrative requirement of being a retailer creates a barrier for anyone but a retailer to provide FCAS.

How, and to what extent, would AEMO's proposed Rule minimize the costs for Market Customers to aggregate ancillary service loads?

It is a step in the right direction, but does not go far enough.

Are there any implications for system security, reliability and quality of supply from the use of aggregated ancillary service loads?

Our expectation is that the aggregation of a large number of facilities will provide ancillary services which are more reliable and secure than could be achieved by sourcing from a small number of large facilities. The failure of a single facility has a much smaller impact.

Additionally, moving towards distributed sources of FCAS should improve system reliability, as the swings in power flow resulting from the response to a frequency excursion should be smaller.

We trust these comments are useful in the development of more flexible FCAS arrangements and we look forward to improvements which may ensue.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Michael Zammit', with a stylized flourish at the end.

Michael Zammit
Managing Director
Energy Response Pty Ltd