

23 April 2020

The Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Sent by: online lodgement

**Wholesale Demand Response Mechanisms
ERC0247
Second Draft Decision**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the issues raised in the AEMC second draft decision addressing the mechanism to permit wholesale demand responses (WDR) in the NEM wholesale electricity market.

As with its response to the first draft decision, the MEU considers it is worth repeating that:

-) End users only interface with the electricity market because they must, not because they are wedded to being actively involved
-) End users have their own markets to which they must devote most of their attention, rather than being a part of resolving the electricity market issues
-) Providing demand response is not a costless exercise for those providing the demand response and, while these providers might earn some financial benefit from providing the demand response, their preference would be to generate the maximum reward from their assets which remain idle when providing demand response
-) Even those end users that do not provide any demand response benefit from the demand response provided by others, in terms of lower costs of electricity and increased reliability of supply. Because of this, it must be highlighted that they, too, are beneficiaries of the demand response provided by others.
-) The MEU recognises that some demand side responses can be provided at very low cost and with minimal impact on the end users providing this service. With this in mind, the MEU accepts that demand side responsiveness should be a part of the electricity market.

The MEU highlights that it is these considerations that lead to its conclusions and the following detailed observations regarding the second draft decision.

Overall, the MEU considers that the second draft decision, while still needing some further refinement as detailed in this response, delivers further improvement over that

from the first draft decision and the MEU is very supportive of this new second draft decision.

Requirements imposed on WDR providers

In its response to the first draft decision, the MEU counselled the AEMC not to apply too many requirements and conditions on WDR providers for the WDR services because the WDR service is in practice a support to the electricity market and only as much WDR necessary to achieve the balancing of the market at the lowest cost is needed. Imposing too strict conditions on these WDR providers will limit the amounts of WDR available and so increase costs for all. The MEU commented in its response:

“Bearing in mind that WDR will never be a major source of electricity supply, the MEU considers that the new rule should impose just sufficient (ie minimal) conditions and requirements on WDR providers.”

The MEU is not convinced that the AEMC has achieved this goal with the second draft decision and there remains significant complexity in the second draft decision, apparently with a view that WDR needs to be treated as if it was the core product of the provider (as applies for generators) rather than as an adjunct to their primary activities.

Timing of introduction

The MEU supports the second draft decision to bring forward the implementation of the WDR process.

Small end user participation

The second draft decision still does not result in small consumers being able to provide WDR (except through activities that are effectively unchanged from before the Power of Choice program was initiated¹) and the arguments included in the second draft decision for excluding small end users imply that the arrangements are not able to allow this consumer cohort to ever be able to participate as intended through the Power of Choice program, probably until a two-sided market is implemented.

One of the drivers of the WDR process was to enable competition to retailers in the provision of DR from all consumers. The approaches discussed by AEMC for small end user DR provision do not provide the competition needed to drive retailers to increase their provision of DR from small consumers. The MEU sees this as a major deficiency in the second draft rule.

¹ The MEU notes that DR has been one of the core issues of the Power of Choice program which was initiated nearly a decade ago. To continue to delay the implementation of DR across the entire end user cohort is not in the long term interests of consumers.

The MEU considers that excluding small end users from WDR is unacceptable and the AEMC needs to investigate more deeply whether the involvement, in some form, of smaller end users could be brought forward, such as allowing aggregators to collate DR from a number of small end users.

Requirements for involvement

The MEU is very concerned that in order to be involved in WDR, the connection point for >5 MW WDR is required by AEMO to have SCADA in order to monitor the response provided and that where there are aggregated multiple connection points if one of the connection points has a WDR capability of >5 MW, all aggregated connection points must have SCADA. Further, AEMO can impose more stringent requirements when the amounts of WDR exceed a value determined by AEMO for “non-visible” DR provided in each region. The MEU considers that the imposition of these requirements is excessive and will deter many potential WDR providers through the costs involved.

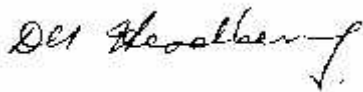
In particular, the MEU considers that there are much lower cost options to SCADA that are used in other overseas WDR markets which can deliver the necessary information to AEMO within the timeframes needed to manage the market.

The MEU is also concerned that the requirements being established to allow involvement (eg setting of baseline tolerances) will be such that it adds another deterrent to end user involvement.

The MEU points out that for an end user being able to provide DR requires more than the simple decision to reduce demand because of the needs of the electricity market. A decision to reduce demand (or not) requires many other factors to be considered, such as involvement in other markets. With this in mind, it is not clear to the MEU that if an end user scheduled to deliver its WDR elects not to provide WDR, or cannot do so for other reasons, what penalties might be applied. The MEU does not consider that there should be any penalties, just as a generator which does not meet its scheduled deliveries, is not penalised. This aspect needs to be clarified.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



David Headberry
Public Officer