

5 August 2021

Australian Energy Market Operator
Level 22/530 Collins Street
Melbourne VIC 3000

Sent electronically to: mass.consultation@aemo.com.au

Dear Sir/Madam,

AMENDMENT OF THE MARKET ANCILLARY SERVICE SPECIFICATION – DER AND GENERAL CONSULTATION: DRAFT REPORT AND DETERMINATION

The Australian Energy Council (AEC) welcomes the consultation opportunity in the Australian Energy Market Operator (AEMO) Draft Report and Determination.

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC accepts the broad approach in AEMO's draft determination however we urge AEMO to defer this decision and extend the VPP demonstration program until June 2023 to better understand the identified measurement risks and any potential mitigation strategies:

The AEC generally accepts as part of an interim approach:

- The decisions not to change the measurement time resolution and measurement location point. The AEC also supports the proposal to delay further enhancing trigger ranges for proportional controllers until the final PFR rule changes have been made.
- That further collaborative engagement with industry via the consultative forum to facilitate progress towards a truly two-sided and customer centric DER market is required. This will provide the opportunity for further discussion on key issues. In this context the AEC believes that the possibility of using separate DUIDs and minimum bid levels to support a lower cost and more flexible future residential DER regime could be considered and explored.
- The key role policy makers and ongoing policy work will have to play, along with iterative actions with the ESB, and the ARENA DEIP program for example

The AEC has been supportive of AEMO amending the market ancillary service specification (MASS) to enable the VPP Demonstration projects to continue in the market. However, AEMO's draft determination is concerning to us and those of our membership who expect it will have a significant impact on the viability of their VPP projects going forward, along with impacts on incremental VPPs during the transition period due to the discount factors that are proposed to apply. We observe that metering changes will also need to be engineered and implemented, and

we are concerned this will also increase the costs of VPP participation. In short, our membership is concerned with the commercial impacts arising from the draft determination.

In a more detailed reflection of our memberships concerns, the AEC:

- Is disappointed that AEMO has significantly altered its position at this late stage. If the measurement issues were identified earlier then these could reasonably have been tested through the VPP demonstrations.
- Would prefer that AEMO deferred this decision and extended the VPP demonstration program until June 2023 to better understand the identified measurement risks and any potential mitigation strategies.
- Is concerned that the draft determination would impose significant costs on VPP demonstration participants and would directly impact the value that can be passed through to VPP customers in the future.
- Believes that the identified measurement risks are manageable, with some time and effort, and of minimal impact to system security. Whilst the AEC supports in principle the interim retention of measurement time resolution the proposed requirement to provide 50 millisecond measurement resolution for fast FCAS response may be uneconomical for VPP demonstration participants.
- Is concerned that the proposed penalties on VPP demonstration participants over the next 2 years are excessive and unjustified, given that:
 - AEMO stated that the relatively small size of the current registered VPP fleet is having no adverse impacts on power system security and AEMO is not having to procure additional FCAS due to the measurement error. In that context, the proposed discount factor appears disproportionate and unreasonable.
 - The proposed discount factor is based on the maximum possible error – rather than an average or some other more appropriate estimate.

Further to the above, the AEC proposes that in any extension of the VPP Demonstration program to June 2023 that the extension would allow;

- New participants to join the program up to six months before its conclusion;
- Participants to increase the maximum FCAS bids (i.e. to take on more customers and grow their portfolio bearing in mind this will still be a relatively small fleet); and
- Participants to enter new regions and FCAS services.

In our view these concessions remain necessary for the program to both generate enough data and test a diverse range of technologies, as well as for AEMO to have confidence in any path going forward.

The AEC understands that some of its members involved in VPP trials have already met with AEMO to discuss their concerns with the draft determination. We also understand that they have shared some preliminary information VPP costs and revenues and how the draft determination would impact the viability of their VPP. We urge AEMO to be mindful of the commercial impacts of the draft given the disclosures made to them by our members to ensure they are aware of the potential, if unintended, consequences.

Any questions about this submission should be addressed to David Markham by email to david.markham@energycouncil.com.au or by telephone on (03) 9205 3107.

Yours sincerely,

David Markham
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Australian Energy Council