

Wholesale Electricity Market Rule Change Proposal Submission

RC_2019_01 < The Relevant Demand calculation >

Submitted by

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Submissions on Rule Change Proposals can be sent by:

Email to: support@rcpwa.com.au

Post to: Rule Change Panel
Attn: Executive Officer
C/o Economic Regulation Authority
PO Box 8469
PERTH BC WA 6849

1. Please provide your views on the proposal, including any objections or suggested revisions.

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Rule Change Panel on 'The Relevant Demand calculation (RC_2019_01)' proposal submitted by Enel X. The AEC is the industry body representing 23 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 supports the principle that improvements may be available with respect to the use of Demand Response (DR) as a mechanism for assisting the Wholesale Electricity Market (WEM) meet its objectives. We do however note that given the current supply of available capacity, there is no urgency for undertaking changes to the Market Rules, and that perhaps this issue can be further explored once the Energy Transformation Taskforce has completed the Whole of System Plan (WOSP). The WOSP will likely provide context and a view of the future capacity mix, and thereby once completed it will provide Market Participants a way to better assess the role and value of DR capacity going forward. We note that a broader review of the role and value of DR in the WEM may be a more appropriate approach than simply redrafting the methodology for calculating Relevant Demand. Observing again, that we do not see an urgency to pursue such a review.

The AEC understands the Rule Change Notice (RC_2019_01) suggests two key changes to the Market Rules:

1. The introduction of a defined term for relevant demand. Enel X has proposed it be defined as “An estimate of a demand side programme's counterfactual demand when it is dispatched”
2. The development of a dynamic baseline methodology to determine a relevant demand value – no drafting proposed

The AEC supports the creation of a defined term for relevant demand, however we suggest that the proposed definition needs to consider a planning perspective as well as an operational one. As the definition of relevant demand is contingent on it being dispatched, how would a value be determined for forward planning and allocation of capacity credits?

In relation to point (2) above, we observe there is insufficient detail in the proposed rule change for Market Participants to properly assess the value of the proposal. Broadly speaking, the use of DR as a mechanism to assist the WEM meet its objectives is supported. We caution though, that an inappropriate baseline methodology has the potential to negatively impact on the promotion of economically efficient, safe and reliable production and supply of electricity and electricity related services.

It is imperative that DR resources are capable and available in an equivalent manner to existing generation capacity. We support the view that a number of mechanisms are required to ensure that Demand Side Management is a “real” and useable product for the market to utilise and therefore that it be treated as closely to conventional generation as possible. This theme was evident in industry feedback¹ to the Public Utilities Office review on Reserve Capacity pricing.

The AEC is sympathetic to the objective of RC_2019_01 in establishing an accurate and simple baseline methodology that determines a program or customer's counter-factual. However, it is important to ensure that the methodology doesn't lend itself to gaming or manipulation. Something that is challenging to achieve in practice.

Ultimately if a new baselining methodology is pursued, it would need to be developed in conjunction with AEMO, and open to consultation with Market Participants and relevant stakeholders.

A draft rule determination² by the Australian Energy Market Commission (AEMC) describes a good baseline for DR as one containing the following attributes, and any detailed drafting of a Rule Change should demonstrate an improvement against these attributes:

1. Accurate under a range of conditions
2. Does not display a consistent error or bias
3. Not susceptible to manipulation
4. Adaptable to changes in consumer characteristics.

¹ Improving Reserve Capacity pricing signals – a recommended capacity pricing model p33 (PUO) 7 February 2019.

² DRAFT RULE DETERMINATION - NATIONAL ELECTRICITY AMENDMENT (WHOLESALE DEMAND RESPONSE MECHANISM) RULE 2019; NATIONAL ENERGY RETAIL AMENDMENT (WHOLESALE DEMAND RESPONSE MECHANISM) RULE 2019 – 18 July 2019

A review commissioned by the AEMC for the National Electricity Market noted - “increased participation of dispatchable demand response in wholesale energy markets, results from a combination of capacity market revenues compensating for necessary infrastructure and the transfer of control to the system operator, and rules that require participation in the wholesale energy market in order to qualify in the capacity market”³. The report explains that dispatching capacity providers in energy markets can allow them to become more reliable, and ultimately allow them to set the energy price. If DR resources were to submit bids into the WA Balancing Market, it could potentially be used to reflect customers willingness to pay to avoid curtailment.

In this vein, Alberta, Canada is implementing a design where wholesale energy market participation of DR, increases the market operator’s visibility into the quantity, type, location, and availability of demand response. This is envisaged to occur at different energy price levels under all system conditions and subsequently improves participation in energy price formation¹. This design will not be implemented until 2021 and so it remains unknown as to what benefits will be delivered in practice. Following our earlier comment that completion of the WOSP may present a more appropriate time to pursue reforms to DR, there could be an opportunity to gain from Alberta’s experiences before committing to further reforms in the WEM.

2. Please provide an assessment whether the change will better facilitate the achievement of the Wholesale Market Objectives.

The development of consumption baselines is expected to come with material corresponding costs in terms of both time and resources for AEMO; relating to the ongoing monitoring, forecasting, and repeated verification of baseline methodologies. The cost of this oversight would ultimately be passed onto consumers.

The proposed change would likely incentivise more DR to enter the capacity market. DR is not required to meet the same conditions as Scheduled Generators (e.g. they are not required to be available at all intervals in the year, and when they are available they do not need to provide capacity for the same duration). Therefore over time we may see an alternative capacity mix that may not be able to deliver the full accredited capacity when required. That is to say, a mix that does not provide the same level of risk assurance as the current Rules provide.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

We observe there is insufficient detail in the proposed rule change for Market Participants to assess implementation impacts.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

There is insufficient detail in the proposed rule change to assess implementation impacts.

³ International Review of Demand Response Mechanisms in Wholesale Markets – The Brattle Group June 2019