

2 November 2023

Submitted online: energymarkets@dmirs.wa.gov.au

Dear,

Australian Energy Council - Response to Demand Side Response in the WEM consultation paper.

The Australian Energy Council (AEC) welcomes the opportunity to respond to the Demand Side Response in the WEM consultation paper.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

The EPWA consultation paper examines the experiences of other markets along with the potential benefits of better integration of DSR comprising both aggregated customer energy resources and other larger grid connected resources. The AEC provides a general response to the issues raised therein.

The AEC notes that the scope of this review only includes contestable customers. The AEC also notes the consultations seven Guiding Principles. Both of these approaches represent a commonsense method that when adhered to will deliver an efficient outcome, and will help consumers avoid the costs associated with the “build it and they will come” style of approach taken with the likes of the WDRM in the NEM.

General Responses.

Adequate incentives: Energy arbitrage cannot and should not be considered in the sort of isolated way that it often is in consultations led by energy market operators and regulators. There are many costs of production that may rise and yet the business can still achieve an acceptable margin, so the incentives to use less electricity when prices are higher or more when lower are often at the fringe of consideration for any business, even when the energy industry thinks this is a staggering sum. This consultation paper notes that “demand response providers tended to preference arrangements which has the least operational disruption.” This is a useful observation, especially when compared to the NEM approach where the size of the DSR pool that would respond was, and continues to be, demonstrably overestimated by AEMO. Importantly, incentives to make DSR work that could exceed the cost of credible alternatives or uses just to “make DSR work”, should be avoided. Recent history reminds us that despite 2022 having the highest prices in the history of the (NEM), the peak DSR activated through the WDRM was only 30MW, and has been even less in 2023. A conservative approach is required.

Barriers to participation: Barriers to participation in the ESS markets appear to be the requirement for registration and telemetry requirements (the latter not required in the NEM). In the AEC's view, compliance with dispatch instructions would appear to be enough on its own for any registered party.

Realistic assessments of what flexibility / firming services DSR can or will provide: The consultations Guiding Principles provide prudent guard rails for this examination. The view that retailers fail to exploit DR, and that if instead the benefit stream were to come directly from AEMO to the customer, or a "third party acting on consumers' behalf", then more DR would emerge has not been borne out in practice. The discussion in the EPWA consultation paper around minimum demand seems to unfortunately reflect this view; that somehow retailers are suppressing or incentivized to suppress DSR. The AEC supports the proposal to not introduce a minimum demand service at this time and agrees with the view that the increasing penetration of ESR will solve it.

No change to the Supplementary Reserve Capacity (SRC): The AEC supports this approach as the SRC already provides for DSR participation.

Constrained access: The proposed information exchanges are prudent.

Please contact the undersigned at David.Markham@energycouncil.com.au should you wish to discuss.

Yours sincerely,

David Markham
Australian Energy Council