

# **Wholesale Demand Response baseline methodology proposals - EnelX**

30 October 2024

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## About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

## Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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# 1. Introduction

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Market Operators (AEMO) draft report on the Wholesale Demand Response baseline methodology proposals from EnelX (the proposals).

The JEC supports the introduction of new baseline methodologies for the Wholesale Demand Response Mechanism (WDRM). This is critical for expanding demand response offerings to a greater proportion of consumers. Demand response provides direct value to consumers who participate in the service themselves as well as all other consumers, who benefit from reduced wholesale prices. Substantial demand response offerings are a critical component of an efficient 21<sup>st</sup> Century energy grid and are necessary to deliver the reliability consumers expect at costs they are willing to pay.

All NEM participants, including demand response providers, should be held to requirements that protect the interests of consumers through maintaining the integrity of the energy market and system. However, these requirements should not restrict the participation of generation, storage and demand response that could dependably (and efficiently) improve competition in the wholesale energy market and the outcomes it delivers for consumers.

As it stands, arrangements for the WDRM do not appropriately strike this balance. WDRM has disproportionately restrictive eligibility requirements and baselining options when compared to similar schemes internationally. This is not in consumers' interests and should be rectified, commencing with the introduction of new baseline methodologies.

The draft report has also failed to recognise the potential impact of demand response on emissions reduction in the energy system. The reduction of demand at peak times can be expected to reduce the amount of dispatch by fossil-fuel generated energy. Load shifting by consumers participating in demand response will move consumption from times with a high proportion of fossil-fuel generation to times with a relatively low proportion. AEMO should have regard to all aspects of the National Electricity Objective (NEO), including the objective of reducing emissions, when exercising its functions. The cost benefit analysis required under the wholesale demand response guidelines, step 6(b), when considering introducing a new baseline methodology should include these emissions reductions as a market benefit, per the treatment in cost benefit analyses AEMO conducts for the Integrated System Plan.<sup>1</sup>

## 2. The WDRM is a permanent part of the energy system

The current narrative from AEMO and the AEMC presents the WDRM as a 'temporary mechanism'. This attitude is undermining scope for the WDRM to fulfil its potential. It reflects a misguided - or at best, outdated and short-sighted - view that the role of the WDRM will be filled in a "two-sided market", this apparently being one where retailers provide all the demand

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<sup>1</sup> Rule 5.22.10(c) says when undertaking the ISP and calculating market benefits AEMO must consider "changes in Australia's greenhouse gas emissions".

response services that participants want and the market values. We consider this an unlikely prospect and one which will not fulfil the potential of WDRM for consumers and the market.

A more appropriate and likely future scenario is that the WDRM and reforms such as Integrating Price Responsive Resources (IPRR) work alongside each other. In this scenario, the WDRM supports demand response (DR) that responds to wholesale spot prices (competing with generators and maximising the benefit to the market), and IPRR supports the DR used by retailers depending on their own market position and preferences (providing more limited market benefits).

AEMO should acknowledge in the final determination that the WDRM will be an enduring element of the National Energy Market (NEM), rather than continue to undermine the effectiveness of the WDRM by describing it as “temporary”. This will reduce ambiguity and support improved conditions for investment by service providers seeking to enter the demand response space.

Maximising potential participation in the WDRM should be adopted as an explicit objective for AEMO. Every unit of demand response dispatched can be expected to have a negative impact on peak spot prices.

The JEC questions the claim in the draft report that the National Energy Market (NEM) is moving “away from baseline dependence for facilitating demand side participation.”<sup>2</sup> Most retailers that do DR with commercial and industrial customers still use baselining. Where DR is being done by retailers in off-market arrangements with household customers without baselining, the benefits are limited and the accuracy is low. In these circumstances consumers often go unpaid for DR they do, or end up being paid for DR they don’t actually engage in. While this is acceptable for the very low level of deployment of DR that occurs through off-market measures, it won’t support achieving the future state anticipated in the ISP where 8% of supply side “capacity” comes from flexible demand. Demand response in the NEM will continue to grow over time, and will always require baselining.

We reject any assessment that the WDRM is inefficient based on assessment that operational resources required from the operator outweigh the small market benefits the mechanism currently returns. The WDRM should be considered on the same terms as other initiatives, many of which could be said to be “inefficient” judged in the early stages of implementation. Further, the onus is on AEMO to scale up the mechanism to a point where market benefits match and exceed the costs to operate. This context must be noted alongside any suggestion that the market benefits have been less than expected or possible.

We note AEMO’s claim that there is an “[i]ndustry preferences for participation in out-of-market mechanisms like Reliability and Emergency Reserve Trader (RERT) rather than in-market participation in WDRM.”<sup>3</sup> The evidence base for this claim is not clear in the draft and should be provided by AEMO. In any case National Energy Law requires AEMO to promote the long-term interests of consumers – which in this case is more efficient provision of demand response

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<sup>2</sup> AEMO, September 2024, ‘Draft Report – Wholesale Demand Response baseline methodology proposals – EnelX’, p. 16.

<sup>3</sup> AEMO, September 2024, ‘Draft Report – Wholesale Demand Response baseline methodology proposals – EnelX’, p. 15.

services - not the preferences of industry. We also note that AEMO actively promotes RERT and seeks to make it easier for industry to participate. Similar efforts have not been made for the WDRM. AEMO's assessment of industry preference for RERT participation should be viewed in this context, rather than regarded as immutable.

### **3. The proposed baselines**

The JEC supports expansion of baseline methodologies on the bases that:

- it will substantially expand the scope of potential participants in the WDRM; and
- the guardrails already in place adequately limit the potential for providers of demand response services to 'game the system'.

We agree with the draft report that compliance costs associated with the addition of new baselines is likely to be low.

We question the draft report's estimate of the costs of introducing new baseline methodologies. They are overly conservative, and appear to take as assumptions that

- these methodologies are untried globally and will require extensive development and testing; and that
- the current consultation process will not suffice as a final mode of refinement and definition of the new baseline methodologies.

We do not agree with either assumption. The proposed methodologies are not notably novel and we do not see why this consultation process cannot be effective, comprehensive, and produce implementable forms of the new baseline methodologies.

#### **10 of 10 (all days) w/ new settings**

The JEC supports AEMO's draft decision to approve this new baseline methodology.

With regard to the decision on lowering the negative adjustment floor, the JEC supports lowering to up to 200% in line with the Energy Policy WA approach. Our understanding is this is not likely to result in a substantially reduced number of potential participants relative to the uncapped negative adjustment option.

#### **High 3 of 10 (all days and business days)**

The JEC supports the introduction of this baseline methodology. The high 3 of 10 will increase accuracy for temperature-sensitive loads. Retaining the 20% accuracy and 4% bias thresholds provides adequate protection against demand response providers tilting the scales in favour of themselves and the participating consumer.

The JEC also supports the introduction of a high 5 of 10 baseline methodology, based on the same reasoning.

We disagree that the introduction of high X of X baseline methodologies will be exorbitantly resource intensive for AEMO. The expansion of the demand resource offerings to a larger set of

participants can be expected to result in a much high ratio of consumer benefit to operational cost, and it is this metric on which the decision to introduce new metrics should turn.

### **Open End of Period Date selection for compliance assessment**

The JEC supports the End of Period selection moving to the participant. The remaining protections against gaming, as well as the prohibitive cost of demand response gaming under any of the existing or proposed baseline methodologies are adequate.

## **4. Sub-metering and non-market metering**

Part of the problem the proposed new baseline methodologies aim to address is the need to provide baselines appropriate for participants who have solar PV. In the words of the draft report, the issue is that for these consumers, “the output varies considerably between seasons and impacts the profile of the load which can affect baseline compliance, even if the underlying load is relatively stable.”<sup>4</sup> There is a need to produce new baselines, and complementary metering arrangements, enabling consumers in this category to be included in demand response offerings.

In addition, there are many potential participants who are currently locked out of the WDRM on the basis of having some highly volatile components of their load uncondusive to accurate baselining using any of the existing methodologies. This is despite the fact that some non-volatile elements of their load would be well suited to demand response participation.

In both cases, the use of sub-metering could resolve the issue and greatly increase the pool of potential demand response participants. If there is sub-metering available – whether it is in the form of a second market meter or some form of non-market measurement device such as an inverter or smart EV charger – the volatile elements can be deducted from the measured load, leaving load that can be baselined using existing methodologies.

The cost of sub-metering can largely be left to the demand response provider and the consumer, without imposing costs on AEMO or other consumers. The operation costs of including submetering are very likely to be smaller than the consumer benefits of the substantially increased size of the pool of potential participants in demand response.

Though not proposed by Enel X’s request, we ask AEMO to consider and comment on this opportunity in its final decision for this process.

## **Further engagement**

The JEC would welcome the opportunity to discuss these matters further. If you have any queries about this submission or would like more information about our advocacy and research work, please contact Michael Lynch, Senior Policy Officer, Energy and Water at [mlynch@jec.org.au](mailto:mlynch@jec.org.au).

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<sup>4</sup> AEMO, September 2024, ‘Draft Report – Wholesale Demand Response baseline methodology proposals – EnelX’, p. 17.