

1 December 2020



Emily Brodie
WDR Stakeholder Engagement Lead
Australian Energy Market Operator

Submitted via email to wdr@aemo.com.au

Dear Ms Brodie,

Wholesale Demand Response Guideline Issues Paper

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to Australian Energy Market Operator's (AEMO) issues paper on the Wholesale Demand Response (WDR) Guidelines (the Guidelines).

Wholesale demand response benefits energy consumers at a system and individual level as well as the broader community by reducing emissions and helping with the transition of the energy system. While relatively minor at the outset, the value to consumers and the market of demand response will grow as the WDR mechanism is established and matures. These benefits and AEMO's role in realising them through the design and operation of the WDR market should be reflected in the Guidelines.

We provide feedback on principles, system security, telemetry and communications, and regional thresholds.

Additional principles

PIAC supports the principles proposed by AEMO but recommends adding an additional principle recognising the broad benefits of WDR and that the development of the WDR market through increased participation is in the interests of consumers.

Power system security

We note AEMO intends to assess proposed Wholesale Demand Response Unit (WDRU) aggregations to ensure they do not 'materially impact' power system security. AEMO indicates triggers for this assessment will include whether the proposed aggregation is in a 'weaker area of the power system' and if it is above 5MW. We are concerned these triggers may add unnecessary costs and barriers to participating in WDR.

Level 5, 175 Liverpool St
Sydney NSW 2000
Phone: 61 2 8898 6500
Fax: 61 2 8898 6555
www.piac.asn.au
ABN: 77 002 773 524

Both 'material impact' and 'weaker area of the power system' are subjective terms, which may add costs to participants looking to aggregate WDRUs. For example, DRSPs may spend resources recruiting customers in a certain area to participate in WDR and then find their aggregation is not accepted by AEMO as it is in a weaker area of the system and has a material impact on system security. We support AEMO including in the Guidelines an explanation of how it will interpret these and how DRSPs can find information about weaker areas of the power system. However, we recommend AEMO also provide accessible, usable and consistent definitions of what constitutes a material impact and a weaker area so DRSPs can establish and register aggregations most efficiently.

PIAC is also concerned the 5MW threshold for assessment of power system impacts is arbitrarily set and may unnecessarily limit participation. We welcome further consideration of whether the 5MW threshold is appropriate and encourages efficient levels of WDR.

PIAC notes AEMO intends to use a process similar to the one it uses for non-scheduled generating units in its assessment of power system security implications of aggregation. In some respects, DRSPs and non-scheduled generators do not have the same impacts on the energy system and it is not appropriate to treat them as equivalent. Any arrangements for including flexible demand in the wholesale market should be suitable for flexible demand units rather than simply replicating what has been designed for large generators.

PIAC appreciates AEMO's responsibility to ensure system security and anticipate and mitigate potential impacts of WDR on it. However, we caution the framework should not restrict participation by, or impose obligations on, new participants to address broader system security or reliability issues that they do not cause or have little ability to control.

Telemetry and communications

PIAC notes a number of stakeholders have raised concerns about the level of communication and telemetry required for participation in WDR. We do not support applying the same telemetry and communication requirements as generators to DRSPs as a default. As mentioned above, DRSPs do not necessarily provide the same services to and do not participate in the market in the same way as generators. As Enel X notes in its submission to the wholesale demand response rule change consultation paper:

[D]emand response is an inherently different service to that provided by scheduled generators, whose business model reflects the primary purpose of generating electricity to sell into the NEM. A load does not exist for the primary purpose of buying electricity or offering demand response. Rather, its purpose is to carry out whatever business functions or personal uses that are of value to the user.

Demand response is a recognition by an energy user that it can create additional value by being more flexible with when and how much it consumes. Subjecting parties who wish to offer wholesale demand response to the same obligations as scheduled generators fundamentally misunderstands the nature of demand response. It may also explain why so few NEM participants have volunteered to be classified as scheduled loads.¹

The Guidelines must balance the value of having control and visibility over loads with the need to offer value to participants and meet the requirement under the Rules for AEMO to 'maximise the effectiveness of WDR at the least cost to end use consumers of electricity.'

¹ Enel X, 2018. Submission to wholesale demand response mechanism consultation paper. <https://www.aemc.gov.au/sites/default/files/2019-01/Enel%20X.pdf>, 13.

Regional thresholds

PIAC acknowledges AEMO's desire for regional thresholds for extra telemetry and communications requirements but does not consider a satisfactory rationale for them has been established.

AEMO has proposed to initially set conservative values for the regional thresholds for non-telemetered WDR which will be revised over time following observations of WDR dispatch performance and assessments of the impact on forecasting risk and uncertainty. This conservative approach will likely place unnecessary costs on participation, especially on smaller loads, and restrict the development of the WDR market placing it at odds with the requirement to 'maximise the effectiveness of WDR at the least cost to end use consumers of electricity'.

Regional thresholds may also create first-mover advantage where DRSPs create aggregations up to 5MW until the regional threshold is reached at which point new entrants are subject to higher telemetry and communications requirements. In the long-term, this may stifle competition in a region, potentially leading to inefficient operation of the market and poor outcomes for consumers. Alternatively, updates to the regional thresholds may deter first-movers as they may anticipate thresholds changing and so may not want to make decisions based on them.

Rather than arbitrarily determined telemetry and communications requirements that are not applied equally to WDRUs, AEMO should determine fit-for-purpose requirements that balance the need for visibility and control with delivering a cost-effective mechanism that maximises benefits to consumers.

We welcome the opportunity to discuss these matters further with AEMO.

Yours sincerely

Anna Livsey
Policy and Communications Officer
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6520
E-mail: alivsey@piac.asn.au