

WHOLESALE DEMAND RESPONSE MECHANISMS – CONSULTATION ON NEM SETTLEMENT ESTIMATES POLICY

FINAL REPORT AND DETERMINATION

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EXECUTIVE SUMMARY

The publication of this Final Report and Determination (Final Report) concludes the consultation by AEMO on proposed amendments to the National Electricity Market (NEM) Settlement Estimates Policy (Policy) in respect of the Wholesale Demand Response Mechanism (WDRM) under the National Electricity Rules (NER).

The Policy sets out:

- The principles and process for calculating estimated settlement amounts when normal processing is not possible.
- AEMO's process for estimating settlement amounts for the purpose of prudential estimation under NER 3.3.9.

AEMO did not receive any submissions in response to the Draft Report published on 18 January 2021.

AEMO received one submission in response to the Issues Paper published on 5 November 2020. This submission proposed that AEMO considers reviewing the new methodologies one year after their commencement, to ensure their fitness for purpose.

AEMO is committed to reviewing its policies and procedures regularly to ensure they are appropriate and contemporary, given the extent of change underway in the NEM.

AEMO's Final Determination is to amend the Policy in the form published with this Final Report, which will take effect from 1 October 2021.



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1. STAKEHOLDER CONSULTATION PROCESS

AEMO is consulting on the Policy as required by the NER 3.15.12(c), in accordance with the Rules consultation procedures in NER 8.9.

AEMO’s timeline for this consultation is outlined below.

Deliverable	Indicative date
Issues Paper and Notice of First Stage Consultation published	5 November 2020
First stage submissions closed	18 December 2020
Draft Report & Notice of Second Stage Consultation published	18 January 2021
Second stage submissions closed	10 February 2021
Final Report published	4 March 2021

The publication of this Final Report concludes this consultation process.

A glossary of terms used in this Final Report is at Appendix A.

2. BACKGROUND

2.1. NER requirements

Under NER 3.15.12(c), AEMO is responsible for developing and modifying the Policy, in accordance with the Rules consultation procedures in NER 8.9.

2.2. Context for this consultation

In June 2020, the Australian Energy Market Commission (AEMC) released its Final Determination, which sets out a series of changes to the NER to facilitate wholesale demand response in the NEM, through a wholesale demand response mechanism (WDRM Rule).

Under the WDRM Rule, from October 2021, consumers will be able to sell demand response in the wholesale market. The WDRM Rule introduces a new market participant category, the Demand Response Service Provider (DRSP).

In this regard, the Policy sets out:

- The principles and process for calculating estimated settlement amounts when normal processing is not possible.
- AEMO’s process for estimating settlement amounts for the purpose of prudential estimation under NER 3.3.9.

2.3. First stage consultation

AEMO issued the Issues Paper, Draft Policy and Notice of First Stage Consultation on 5 November 2020.

The Issues Paper discusses the proposed prudential arrangements and obligations to apply to DRSPs, such that the NEM prudential standard is met. The DRSP prudential requirements are specified in the Credit Limit Procedures, which has been the subject of a recent consultation process¹. The prudential requirements apply, as the WDRM Rule allows for “negative settlement”, such that a DRSP may be exposed to pool prices. Consequently, DRSPs would be pool price payers rather than pool price recipients, by having negative settlement amounts.

¹ <https://aemo.com.au/consultations/current-and-closed-consultations/credit-limit-procedures-wdrm>



The Draft Policy detailed the approach by AEMO to calculating estimated net settlement amounts for Market Participants, including DRSPs, for the purposes of prudential assessment. The estimated settlement amounts inform outstandings, which are a key value used in AEMO’s prudential assessment of Market Participants. Market Participants are obliged to maintain their outstandings below their trading limits.

A Market Participant’s outstandings can be calculated based on AEMO’s reasonable estimate of the settlement amounts for billing periods where final statements have not been issued. The Policy specifies for days where no preliminary billing run has been performed, the process to estimate settlements data for each Market Participant.

AEMO proposed to amend the Policy as follows:

- Clause 3.2 – insertion of text to describe the approach to settlement estimations for DRSPs.
- Clause 3.2.4 – insertion of clause to describe the hierarchy of data for estimating Wholesale Demand Response Settlement Quantity (WDRSQ) for DRSPs; that is, actual metering data, final substituted metering data and estimated data.
- Clause 1.1 – replacement of the effective date of 1 July 2021 by 1 October 2021 on the front cover of Policy.

AEMO considers these proposed amendments to be non-controversial.

AEMO received one written submission, from Origin Energy, as discussed below. AEMO did not hold any meetings/forums.

2.4. Second stage consultation

AEMO issued the Draft Report² and Notice of Second Stage Consultation on 18 January 2021. AEMO did not propose any changes to the Draft Policy, as published in the First Stage Consultation.

AEMO did not receive any written submissions in the Second Stage Consultation or hold any meetings/forums.

3. SUMMARY OF MATERIAL ISSUES

The key material issues were as follows.

No.	Issue	Raised by
1.	Consider there is merit in AEMO undertaking a review of the new methodologies applied one year after commencement to ensure they are fit for purpose	Origin Energy

A summary of issues raised by Consulted Persons in submissions, together with AEMO’s responses, is contained in Appendix B.

² <https://www.aemo.com.au/consultations/current-and-closed-consultations/nem-settlement-estimates-policy-wdrm>



4. DISCUSSION OF MATERIAL ISSUES

4.1. Review of new methodology

4.1.1. Issue summary and submissions

Origin Energy proposed that AEMO considers reviewing the new methodologies to estimate settlement amounts for DRSPs one year after their commencement, to ensure their fitness for purpose.

Origin Energy noted the difficulties in evaluating the appropriateness of proposed changes, without empirical information on the performance of DRSPs.

4.1.2. AEMO's assessment

AEMO agrees with Origin Energy as to the merits of regularly reviewing its procedures, particularly in contexts like the WDRM, where new roles and obligations are created.

4.1.3. AEMO's conclusion

AEMO is committed to regularly reviewing its procedures, including the Policy, to ensure they are appropriate and contemporary, given the extent of change underway in the NEM.

5. OTHER MATTERS

A very minor typographical error is corrected in clause 2.2, to replace MPD with MDP.

6. FINAL DETERMINATION

AEMO's Final Determination is to amend the Policy in the form in Appendix C, in accordance with NER 3.15.12(c).



APPENDIX A. GLOSSARY

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
DRSP	Demand Response Service Provider
NEM	National Electricity Market
NER	National Electricity Rules
MDP	Metering Data Provider
WDRM	Wholesale Demand Response Mechanism



APPENDIX B. SUMMARY OF SUBMISSIONS AND AEMO RESPONSES

No.	Consulted person	Issue	AEMO response
1.	Origin Energy	Consider there is merit in AEMO undertaking a review of the new methodologies applied one year after commencement to ensure they are fit for purpose	AEMO is committed to and has internal processes for the regular review its procedures and policies, including the Policy, to ensure they are appropriate and contemporary.



APPENDIX C. FINAL NEM SETTLEMENT ESTIMATES POLICY

The Final Policy is available at:

<https://www.aemo.com.au/consultations/current-and-closed-consultations/nem-settlement-estimates-policy-wdrm>