

# MARKET AND SYSTEM OPERATION PROCEDURES, METHODOLOGIES AND GUIDELINES (WHOLESALE DEMAND RESPONSE)

ISSUES PAPER

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## EXECUTIVE SUMMARY

The publication of this Issues Paper commences the first stage consultation by AEMO on proposed changes to market and system operation procedures methodologies and guidelines under the National Electricity Rules (NER).

These changes result from the Wholesale Demand Response (WDR) rule changes, which take effect from 24 October 2021.

AEMO has prepared this Issues Paper to facilitate feedback on these proposed changes.

In summary:

- The key proposals involve changes to the Market Suspension Compensation Methodology, with the focus on optimal approaches to meeting the market suspension compensation objectives in clause 3.14.5A of the NER.
- The other proposals – which involve changes which AEMO considers to be mostly minor, or reflect obligations already described in the NER – are to:
  - Procedures for Issue of Directions and Clause 4.8.9 Instructions.
  - Intervention Pricing Methodology.
  - Constraint Formulation Guidelines.

The final rule clause 3.14.5A(f1) provides for the determination of the compensation payable to each Market Suspension Compensation Claimant for the purposes of WDR.

For these purposes, the benchmark value for WDR is to be determined by the capacity-weighted average of the benchmark costs in respect of a class of Scheduled Generator in the same region as the Claimant, as selected by AEMO in accordance with the Market Suspension Compensation Methodology.

AEMO is required to specify – in the Market Suspension Compensation Methodology – the approach to be adopted by AEMO in selecting the class of Scheduled Generator to be used when determining the capacity-weighted average of the benchmark costs (Final rule, clause 3.14.5A(h)(2A)).

AEMO has not formed a view as to the appropriate approach, or benchmark value. Accordingly, AEMO is seeking feedback from participants and interested parties as to the appropriate approach, as well as benchmark value.

AEMO invites stakeholders to suggest alternative options where they do not agree that AEMO's proposals would achieve the relevant objectives.

AEMO also asks stakeholders to identify any unintended adverse consequences of the proposed changes.

Stakeholders are invited to submit written responses on the issues and questions identified in this Issues Paper by 5.00 pm (Melbourne time) on 17 November 2020, in accordance with the Notice of First Stage of Consultation published with this Issues Paper.



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## 1. STAKEHOLDER CONSULTATION PROCESS

AEMO's indicative timeline for this consultation is outlined below.

Dates may be adjusted depending on the number and complexity of issues raised in submissions and any meetings with stakeholders.

Deliverable	Indicative date
Issues Paper published	9 October 2020
Submissions due on Issues Paper	17 November 2020
Draft Report published	11 December 2020
Submissions due on Draft Report	29 January 2021
Final Report published	12 March 2021

Prior to the submissions due date, stakeholders can request a meeting with AEMO to discuss the issues and proposed changes raised in this Issues Paper.



## 2. BACKGROUND

### 2.1 NER requirements

In accordance with the Rules consultation requirements in NER clause 8.9, AEMO is conducting this consultation in respect of:

- Market Suspension Compensation Methodology under NER clause 3.14.5A(h)(i).
- Procedures for Issue of Directions and Clause 4.8.9 Instructions under NER clause 4.8.9(b).
- Intervention Pricing Methodology under NER clause 3.9.3(e).
- Constraint Formulation Guidelines under NER clause 3.8.10(c).

### 2.2 Context for this consultation

On 11 June 2020 the Australian Energy Market Commission (AEMC) published the final determination in respect to the rule change to facilitate WDR in the National Electricity Market (NEM), principally through implementing the WDR mechanism.

Under this final rule, Large consumers will be able to sell demand response in the wholesale market either directly or through specialist aggregators for the first time.

The rule changes:

- Introduce a new market participant category, a Demand Response Service Provider (DRSP).
- Place obligations on DRSPs that replicate those applied to scheduled participants, for example, similar information provision and scheduling obligations.
- Set out a process for having baseline methodologies determined and applied to wholesale demand response units (WDRUs).
- Provide for DRSPs to be settled in the wholesale market for the WDR they have provided at the prevailing spot price.
- Set out consequential changes to the NER, including changes to Reliability and Emergency Reserve Trader (RERT) provisions.
- Make additional changes the NER, such as the demand side participation information provisions, to improve the integration of the demand side.

On 10 September 2020, the AEMC published the final determination in respect to the rule change to improve the intervention mechanisms in the NEM. The final rule removes the obligation on AEMO to counteract and minimise the effect on interconnector flows during an intervention to contribute to minimising costs for consumers. This final rule came into effect on 17 September 2020.



### **3. THE RULE CHANGE REQUIRES CONSEQUENTIAL AMENDMENTS TO AEMO'S MARKET SUSPENSION COMPENSATION METHODOLOGY**

#### **3.1 Background**

The requirements for participant compensation following market suspension in the NEM are specified in clause 3.14.5A of the NER.

The objective for the payment of compensation is to maintain the incentive for DRSPs to supply WDR – as well as Scheduled Generators to supply energy and Ancillary Service Providers to supply market ancillary services – during market suspension pricing schedule periods.

During these periods, spot prices and FCAS prices in a suspended region continue to be determined in accordance with the NER and central dispatch continues under rule 3.8.

Otherwise, prices will be based on the relevant Market Suspension Pricing Schedule (MSPS), as developed and published in accordance with NER clause 3.14.5(e).

AEMO is required to pay compensation to eligible Market Suspension Compensation Claimants during suspension pricing periods if prices in those periods are not sufficient to cover their estimated costs. This compensation will be calculated in accordance with NER clauses 3.14.5A(d) and 3.14.5B.

AEMO calculates benchmark values for the following classes of Scheduled Generator and Ancillary Service Provider, which are based on the fuel source or technology type of the generating system:

- Black coal
- Brown coal
- Open cycle gas turbine
- Combined cycle gas turbine
- Hydro
- Wind
- Solar photovoltaic
- Large scale batteries
- Biomass
- Solar thermal
- Liquid fuel

#### **3.2 Changes under WDR Rule**

The final rule clause 3.14.5A(f1) provides for the determination of the compensation payable to each Market Suspension Compensation Claimant in respect of WDR.

For these purposes, the benchmark value for WDR is to be determined by the capacity-weighted average of the benchmark costs in respect of a class of Scheduled Generator in the same region as the claimant, as selected by AEMO in accordance with the Market Suspension Compensation Methodology.

AEMO is required to specify – in the Market Suspension Compensation Methodology – the approach to be adopted by AEMO in selecting the class of Scheduled Generator to be used when determining the capacity-weighted average of the benchmark costs (Final rule, clause 3.14.5A(h)(2A)).

AEMO has not formed a view as to the appropriate approach, or benchmark value. Accordingly, AEMO is seeking feedback from participants and interested parties as to the appropriate approach, as well as benchmark value.



### Questions

- What approach should be adopted by AEMO in selecting the relevant class (or classes) of Scheduled Generator for the purposes of determining the benchmark value under clause 3.14.5A(f1)?
- Which class (or classes) of Scheduled Generator should be used for the purposes of determining the benchmark value under clause 3.14.5A(f1)?





#### 4. OTHER MATTERS

AEMO is also consulting on minor amendments to the following documents:

- Procedures for Issue of Directions and Clause 4.8.9 Instructions
- Intervention Pricing Methodology
- Constraint Formulation Guidelines

AEMO considers these changes to be minor or reflecting obligations already described in the new rules.

Change marked versions of these documents are included as part of this consultation package.

These documents can be viewed at <https://aemo.com.au/en/consultations/current-and-closed-consultations>.



## 5. SUMMARY OF MATTERS FOR CONSULTATION

In summary, AEMO seeks comment and feedback on the following matters:

1. What approach should be adopted by AEMO in selecting the relevant class (or classes) of Scheduled Generator for the purposes of determining the benchmark value under clause 3.14.5A(f1)?
2. Which class (or classes) of Scheduled Generator should be used for the purposes of determining the benchmark value under clause 3.14.5A(f1)?
3. Minor amendments to:
  - Procedures for Issue of Directions and Clause 4.8.9 Instructions
  - Intervention Pricing Methodology
  - Constraint Formulation Guidelines

Submissions on these and any other matter relating to the proposal must be made in accordance with the Notice of First Stage of Consultation published with this Issues Paper by 5.00 pm (Melbourne time) on 17 November 2020.