



WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE PROPOSAL: AEPC_2017_03

MARKET PROCEDURE: DETERMINATION OF DSM DISPATCH
PAYMENT TRANCHES AND ADJUSTMENTS

Published: **June 2017**





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EXECUTIVE SUMMARY

The publication of this Procedure Change Proposal and the accompanying call for submissions commences the Procedure Change Process conducted by AEMO to consider a proposed new Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments under the Wholesale Electricity Market Rules (WEM Rules).

The proposed new Market Procedure is required by clauses 6.17.6B and 6.17.6F of the WEM Rules, which commence on 1 October 2017 and which require AEMO to develop a new Market Procedure to document:

- The methodology used to calculate Tranche 2 DSM Dispatch Payments and Tranche 2 DSM Dispatch Payments.
- The process for adjusting relevant calculation parameters

This Procedure Change Proposal includes this document, which outlines the reason for the proposed Market Procedure, and the proposed Market Procedure itself, which is available at:

http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_03.

AEMO invites stakeholders to suggest alternative options or drafting where they consider that these would improve the procedure or better meet the Wholesale Market Objectives in section 122(2) of the *Electricity Industry Act 2004* (Electricity Industry Act) (and clause 1.2.1 of the WEM Rules).

Stakeholders are invited to submit written responses on the proposed Market Procedure by 5.00 pm Australian Western Standard Time (AWST) on 3 July 2017, in accordance with the call for submissions published with this Procedure Change Proposal.



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1. PROCEDURE CHANGE PROCESS

Section 2.10 of the WEM Rules outlines the Procedure Change Process.

AEMO may initiate the Procedure Change Process in respect of Market Procedures (including Power System Operation Procedures and the Monitoring and Reporting Protocol) for which it is responsible, by developing a Procedure Change Proposal. Rule Participants may notify AEMO where they consider an amendment or replacement of an AEMO Market Procedure would be appropriate (Clauses 2.10.1 and 2.10.2).

If an Amending Rule requires AEMO to develop new Market Procedures or amend or replace existing Market Procedures, then AEMO is responsible for the development, amendment or replacement of Market Procedures to comply with the Amending Rule (Clause 2.10.3).

Under clause 2.9.3 of the WEM Rules, Market Procedures:

- (a) must:
 - i. be developed, amended or replaced in accordance with the process in the WEM Rules;
 - ii. be consistent with the Wholesale Market Objectives; and
 - iii. be consistent with the WEM Rules, the Electricity Industry Act and the WEM Regulations; and
- (b) may be amended or replaced in accordance with section 2.10 of the WEM Rules and must be amended or replaced in accordance with section 2.10 of the WEM Rules, where a change is required to maintain consistency with Amending Rules.

The Wholesale Market Objectives are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
- (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

AEMO has published this Procedure Change Proposal in accordance with the Procedure Change Process in clause 2.10 of the WEM Rules.

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.

Process Stage	Indicative date
Procedure Change Proposal published	2 June 2017
Submissions due on Procedure Change Proposal	3 July 2017
Procedure Change Report published	22 August 2017
Proposed commencement of new Market Procedure	1 October 2017

Prior to the submissions due date, stakeholders may request a meeting with AEMO to discuss the issues and proposed changes raised in this Procedure Change Proposal.



2. BACKGROUND

2.1 Regulatory requirements

Clauses 6.17.6B and 6.17.6F of the WEM Rules, which commence on 1 October 2017 and provide that:

6.17.6B. AEMO must develop a Market Procedure that details the methodology to calculate the Tranche 2 DSM Dispatch Payment and the Tranche 3 DSM Dispatch Payment for each Demand Side Programme.

6.17.6F. AEMO must document the procedure it follows in making the adjustment referred to in clause 6.17.6E, and Rule Participants, including AEMO, must follow the documented Market Procedure.

The proposed Market Procedure would be the first version of this procedure. AEMO proposes to commence the new procedure on 1 October 2017 in time for the commencement of the relevant rules

2.2 Context for this consultation

On 31 May 2016, the Minister for Energy gazetted amendments to the WEM Rules related to the Reserve Capacity Mechanism.¹ The Final Report² indicated these reforms addressed the problem of excess capacity in the South West Interconnected System (SWIS) by making the Reserve Capacity Mechanism more responsive to market conditions; that is, more responsive to the level of capacity in the market relative to the Reserve Capacity Requirement. There were four principal elements of the reforms.

1. Adoption of a three-year ahead auction as the basis for procurement and pricing of capacity, with the first auction process to occur at the earlier of a pre-set level of excess capacity (five to six per cent) or a fixed date of 2021.
2. Changes to the capacity price formula for a transition period prior to the auction, that involves maintaining the existing administered price mechanism but with a steeper pricing curve and a different pricing arrangement for demand side management capacity.
3. Implementation of measures to harmonise demand side management availability requirements with requirements for conventional generators.
4. Stronger commercial incentives for all forms of capacity to be made available for dispatch.

¹ See Government Gazette No.89 dated 31 May 2016, *Electricity Industry (Commencement of Electricity Industry (Wholesale Electricity Market) Amendment Regulations) Order 2016*.

² April 2016, Public Utilities Office, "Final Report: Reforms to the Reserve Capacity Mechanism". Available at: http://www.finance.wa.gov.au/cms/uploadedFiles/Public_Utility_Office/Electricity_Market_Review/Reforms-to-the-Reserve-Capacity-Mechanism-Final-Report.pdf.

3. PROPOSED PROCEDURE CHANGE

3.1 Detail of the proposed procedure change

The draft Market Procedure describes how Tranche 2 DSM Dispatch Payments and Tranche 3 DSM Dispatch Payments for Demand Side Programmes are calculated. It also describes the process to adjust calculations for these payments if the number of DSM Capacity Credits assigned to a Demand Side Programme changes during a Capacity Year.

Thresholds are calculated to determine if the Deemed DSM Dispatch falls into Tranche 1, 2 or 3, which then determines the compensation for the dispatched energy.

Tranche 2 DSM Dispatch Payment

A Deemed DSM Dispatch is included in Tranche 2 when the Demand Side Programme's Cumulative Annual DSM Dispatch for a Capacity Year is greater than the Calculated DSP Quantity (until the Tranche 3 threshold applies). The Calculated DSP Quantity is defined in the WEM Rules as:

For a Demand Side Programme for a given Capacity Year, an amount (in MWh, adjusted under clause 6.17.6E if applicable) equal to:

- (a) the number of DSM Capacity Credits assigned to the Demand Side Programme;
multiplied by
- (b) an amount (expressed on a MWh per DSM Capacity Credit basis) equal to the Expected DSM Dispatch Quantity plus 0.5.³

The Non-Balancing Facility Dispatch Instruction Payment for each MWh of Deemed DSM Dispatch included in Tranche 2 is the Extra Consumption Decrease Price.

Tranche 3 DSM Dispatch Payment

The threshold between Tranche 2 and Tranche 3 is related to the payments that a Demand Side Management provider receives for the Demand Side Programme's Capacity Credits plus the Tranche 2 DSM Dispatch Payments. Deemed DSM Dispatch is included in Tranche 3 when these payments equal or exceed the product of the Reserve Capacity Price and the number of the Demand Side Programme's DSM Capacity Credits.

The Non-Balancing Facility Dispatch Instruction Payment for each MWh of Deemed DSM Dispatch included in Tranche 3 is the Consumption Decrease Price.

Adjustment of Tranche 2 and Tranche 3 thresholds for changes in a DSP's DSM Capacity Credits

If the number of DSM Capacity Credits assigned to a Demand Side Programme changes during a Capacity Year, then the thresholds for Tranche 1, 2 and 3 must be adjusted proportionally.

3.2 Proposed drafting

AEMO has published a draft of the proposed Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments for consultation, which is available at: http://www.aemo.com.au/Stakeholder-Consultation/Consultations/AEPC_2017_03. AEMO has not provided a marked-up version of the Market Procedure as it is new.

³ For example, if the Expected DSM Dispatch Quantity equals 2 MWh per DSM Capacity Credit, and a Demand Side Programme is assigned 10 Capacity Credits the Calculated DSP Quantity would be $10 \times (2+0.5)$, which equals 25 MWh.



3.3 Consultation to date

A draft version of the Market Procedure was presented at the WA Market Reform Program – Reserve Capacity Mechanism Forum 3 (WAMRP-RCM) meeting held on 12 May 2017. Details of this forum are available at: <http://aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/WA-Forums/WAMRP-Reserve-Capacity-Mechanism-Forum>.

Minor changes to improve clarity were recommended by stakeholders. These minor changes have been incorporated into the proposed Market Procedure that forms part of this Procedure Change Proposal.

3.4 Consistency with WEM Rules, Electricity Industry Act and WEM Regulations

The proposed new WEM Market Procedure has been reviewed as a whole by AEMO to ensure compliance with the relevant provisions in the:

- Electricity Industry Act;
- WEM Regulations; and
- WEM Rules.

3.5 Consistency with Wholesale Market Objectives

The steps outlined in this new Market Procedure describe the process AEMO has to follow to determine the Tranche 2 and Tranche 3 DSM Dispatch Payments that will be paid to DSM Providers for the decrease in energy consumption (in MWh) when a DSP is dispatched. Further, it outlines the process AEMO has to follow to adjust the calculation of the DSM Dispatch Payments in case the number of DSM Capacity Credits assigned to a DSP changes during a Capacity Year.

AEMO considers that the steps are drafted in a way that does not change the objectives of the Market Rules. As a result, AEMO considers that the new Procedure, as a whole, is consistent with the Wholesale Market Objectives.



4. CONSULTATION PROCESS

AEMO invites stakeholders to suggest alternative options or drafting where they consider that these would improve the procedure or better meet the Wholesale Market Objectives in section 122(2) of the Electricity Industry Act (and clause 1.2.1 of the WEM Rules).

Stakeholders are invited to submit written responses on the proposed Market Procedure by 5.00 pm (AWST) on 3 July 2017, in accordance with the call for submissions published with this paper.

Stakeholders with questions in relation to the proposed Market Procedure or this Procedure Change Proposal can contact AEMO via email to wa@aemo.com.au.

All correspondence in relation to this Procedure Change Proposal must be entitled “AEPC_2017_03 Determination of DSM Dispatch Payment Tranches and Adjustments - [Name of the submitting company or individual]”.