

11 September 2024

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted at: aemc@aemc.gov.au

ERC0352, RRC0051

Dear Sir/Madam,

Draft Determination - Integrating price-responsive resources into the NEM

The Australian Energy Council (AEC) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Draft Determination - Integrating price-responsive resources into the NEM (the Draft).

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

Participation:

The Draft allows aggregated consumer energy resources (CER) to be scheduled and dispatchable in the National Electricity Market (NEM) via a dispatch mode framework.

Dispatch mode will allow price-responsive small resources to compete with large-scale generators and storage in the NEM. In our view this is a positive step. Our concerns remain however that the dispatch requirements are inconsistent with the requirements of other scheduled generators in that they are much more lenient and aligned more with the requirements of the Wholesale Demand Response Mechanism (WDRM). The WDRM has not represented a problem to date as it is largely unused.

However, if AEMO estimates are correct, and 40% of those scheduled generators bidding into the market, setting spot prices, receiving and following dispatch instructions and accessing markets that require scheduling (e.g. regulation frequency control ancillary services) will be small scale generators by 2050, then this more lenient dispatch mode approach is not appropriate either from the perspective of competitive neutrality or conformance.

In our view, requirements consistent with the existing dispatch arrangements are necessary and should be the subject of further consideration. Conformance criteria should be in the rules and not in an AEMO Guideline.

Incentive schemes:

As the Draft notes, effectively integrating small generation resources into the spot market is crucial to maintaining an affordable and reliable supply of electricity for all consumers. To drive participation in dispatch mode the Draft proposes an Australian Energy Market Operator (AEMO) tendering mechanism that seeks to overcome the barriers for early entrants participating in dispatch.

The Draft recognises that lowering the threshold below 5MW would likely simply drive a revision and lowering of nameplate capacity by small generation resources. This is assumed to be because the costs of conformance requirements exceed the benefits. Consequently, the Draft requires an external incentive mechanism. We note that the first preference is for a direct support arrangement that is independently funded, and that if this eventuates the AEMC will remove the AEMO tendering mechanism from the final rule. We agree that this is the preferred approach.

The Draft hypothesises that in the longer term that market and network access alone will provide incentives for participation. But the classic economic argument against the use of subsidies in that they cause a misalignment between prices and production costs is just as relevant here. Simply put, and borne out in practice, subsidies encourage growth in the subsidised industry segment relative to those industry segments that do not receive subsidy; creating both distortions, and increasingly large and powerful interest groups that are difficult to dislodge. The Drafts hypothesis that subsidy incentives are readily removed in the longer term is flawed in this regard.

Forecasting:

As the Draft notes, many small and potentially price-responsive resources will not be capable of, or choose to, participate in dispatch mode. Their forecast growth will confront AEMO with further challenges forecasting demand in the NEM, and so new reporting requirements on the AER and AEMO will evaluate the impact of price-responsive resources on the accuracy of its operational demand forecasts and the consequences of any forecast inaccuracies.

If despite the reporting feedback and adjustments AEMO is unable to improve its operational demand forecasting, a visibility market model, where retailers become responsible for forecasting their price responsiveness is proposed. We caution that this visibility mode is not a drop in solution, it brings with it high infrastructure hurdles and a large change to market design that requires a much more considered consultation than has been the case to date in making the case for simply *rejecting* it.

In no regard should the Final Determination rule from the grave. It should not lock in any future switch to a visibility mode implementation and should instead set a review period for dispatch mode at which time in the future its success or failure be considered alongside a range of alternatives established by a *new* consultation.

Please contact David Markham, Regulatory Manager at David.Markham@energycouncil.com.au should you wish to discuss.

Yours sincerely,

David Markham
Australian Energy Council