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EnergyAustralia
LIGHT THE WAY

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Peak Demand Reduction Scheme — rule change 2 consultation paper — 19 October 2023

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to comment on the Office of Energy and Climate Change's (OECC) proposed expansion of the Peak Demand Reduction Scheme's eligible activities.

We have been anticipating the inclusion of batteries within the scope of the Scheme since its inception and fully support this.

The expansion of the Scheme to incorporate demand response (DR) by large commercial and industrial (C&I) customers is also a significant opportunity that should deliver material system benefits for all NSW customers. We believe that limiting eligible DR activities under the Scheme to just the Wholesale Demand Response Mechanism (WDRM) will not, however, deliver on the OECC's objectives. EnergyAustralia currently has over 300MW of contracted demand response capability in NSW with the potential for this to be better enabled during peak times.

The OECC is correct to note that C&I customers currently face barriers in providing efficient levels of DR given spot price incentives. Many customers face significant opportunity costs in making operational decisions to reduce load, and may also incur direct costs for technologies that enable demand reduction or shifting. As such they require a high degree of confidence that peak price events will be of sufficient magnitude and duration to justify incurring these costs. The bounds of price volatility have been impacted by the introduction of 5-minute settlement in the National Electricity Market, which was the intent of that reform, however it has impacted participation in retailer-backed DR, as well as in the WDRM. Whilst spot prices are expected to become progressively more volatile with higher rates of variable wind and solar generation, the exit of thermal firming capacity and more extreme weather events, large C&I customers will still be left to estimate what their financial returns will be for DR participation.

The OECC incorrectly states the "WDRM is the most accessible way for large users to access the spot market (either directly or through an aggregator) and monetise demand

response capacity".[1] EnergyAustralia, and many other retailers, also offer spot-price share DR programs, similar to WDRM, but funded by the retailer rather than the end-users as per the WDRM. As evidenced by the lack of uptake in WDRM, and with ENEL X being the only active participant, C&I customers see more value in contracting spot-price share DR with their retailer. Many of these C&I customers are also enrolled on the AEMO RERT Panel to provide emergency reserve for a fixed price benefit. Participation in RERT is high because of the known financial benefits prior to participation. In contrast to this, participation in spot-price share DR, including WDR, is low due to the uncertainty of spot-price outcomes. This uncertainty can lead to C&I customers not participating in DR, which can then lead to demand and spot prices staying high. C&I DR being included as an eligible activity under the Scheme would provide a fixed-price benefit for providing DR during the Scheme periods.

The OECC's primary justification for only recognising WDRM capacity is that validation of DR capability would be easily done by examining actual dispatch data. Comments by OECC staff at the recent webinar[2] seem to suggest alternatives to the WDRM would require significant time and effort in developing baseline methodologies. Its proposed approach, however, implicitly adopts AEMO's WDRM baselining methodology.[3] This is the same methodology used by AEMO for RERT, used by many retailers for their internal DR programs, and used widely for C&I demand response. Thus, this baselining methodology could be readily adopted under the Scheme and applied by accredited service providers. The OECC could explore placing additional requirements to have certificate claims pre-validated by an independent auditor.

In summary, the OECC should investigate the likely cost and burden of alternatives to relying on the WDRM. In our view, the effort in enabling wider eligibility would be outweighed by the resulting additional demand response benefits that would be unlocked relative to the small amounts in the WDRM. Our expectation is that, where minimum thresholds are applied, only large industrial customers and certificate providers would need to be assessed. This effort should also be put into the context of that which will be spent administering and policing certificate creation for mass market activities.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

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[1] OECC, *Peak Demand Reduction Scheme - Rule change 2 consultation paper*, October 2023, p. 18.

[2] https://youtu.be/PWcqjw3TO3s?si=V-_REnnM43SP1vSC&t=3240

[3] AEMO | Baseline Methodology Register