

# WHOLESALE DEMAND RESPONSE MECHANISMS – CONSULTATION ON NEM SETTLEMENT ESTIMATES POLICY

DRAFT REPORT AND DETERMINATION

Published: 18 January 2021





## NOTICE OF SECOND STAGE CONSULTATION – NEM SETTLEMENT ESTIMATES POLICY

### **Date of Notice: 18 January 2021**

This Notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is commencing the second stage of its consultation on the NEM Settlement Estimates Policy (Policy).

This consultation is being conducted under clause 3.15.12(c) of the National Electricity Rules (NER), in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

### **Invitation to make Submissions**

AEMO invites written submissions on this Draft Report and Determination (Draft Report).

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so.

Consulted Persons should note that material identified as confidential may be given less weight in the decision-making process than material that is published.

### **Closing Date and Time**

Submissions in response to this Notice should be sent by email to [prudentials@aemo.com.au](mailto:prudentials@aemo.com.au), to reach AEMO by 5.00pm (Melbourne time) on 10 February 2021.

All submissions must be forwarded in electronic format (both pdf and Word). Please send any queries about this consultation to the same email address.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

### **Publication**

All submissions will be published on AEMO's website, other than confidential content.

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## EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage 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 draft 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 clause 3.3.9.

This Draft Report provides an opportunity for Registered Participants and other interested parties to provide further feedback regarding the treatment of Demand Response Service Providers (DRSPs) under the Policy.

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 procedures regularly to ensure they are appropriate and contemporary, given the extent of change underway in the NEM.

AEMO's draft determination is to amend the Policy in the form published with this Draft Report.

AEMO invites stakeholders to suggest alternative options where they do not agree that the proposed amendments would achieve the relevant objectives. AEMO also asks stakeholders to identify any unintended adverse consequences of the proposed amendments.

Stakeholders are invited to submit written responses by 5.00 pm (Melbourne time) on 10 February 2021, in accordance with the Notice.



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## 1. STAKEHOLDER CONSULTATION PROCESS

As required by the NER, AEMO is consulting on the proposed amendments to the Policy, in accordance with the Rules consultation process in rule 8.9.

AEMO’s indicative timeline for this consultation is outlined below. Future dates may be adjusted depending on the number and complexity of issues raised in submissions.

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

The publication of this Draft Report marks the commencement of the second stage consultation.

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

## 2. BACKGROUND

### 2.1. NER requirements

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

### 2.2. Context for this consultation

In June 2020, the Australian Energy Market Commission (AEMC) released its Final Determination that sets out a series of changes to the NER to facilitate wholesale demand response (WDR) 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 clause 3.3.9.

### 2.3. First stage consultation

AEMO issued the Notice of First Stage Consultation, Issues Paper and Draft Policy 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 have been the subject of a recent consultation.<sup>1</sup> The finalisation of the Credit Limit Procedures coincides with the publication of this Draft Report. The prudential requirements apply, as the WDRM Rule allows for “negative settlement”, such that DRSPs may be exposed to pool prices. Consequently, DRSPs would be pool price payers, rather than pool price recipients, by having negative settlement amounts.

<sup>1</sup> See consultation document at: <https://aemo.com.au/consultations/current-and-closed-consultations/credit-limit-procedures-wdrm>



The draft Policy published in November 2020 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 Market Participants.

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, being actual metering data, final substituted metering data and estimated data.
- Clause 1.1 – deletion of the commencement date of 1 July 2021, with update to effective date to 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.

### 3. SUMMARY OF MATERIAL ISSUES

The key material issues are summarised in the following table:

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.

### 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 minor typographical error is corrected in clause 2.2, to replace the reference to MPD with MDP.

### **6. DRAFT DETERMINATION**

AEMO's draft determination is to amend the Policy in the form in Appendix C, in accordance with NER clause 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 NEM Settlement Estimates Policy, to ensure they are appropriate and contemporary.



## **APPENDIX C. DRAFT NEM SETTLEMENTS ESTIMATES POLICY**

The draft Procedures have been published to accompany the Draft Report. The draft Procedures are available at:

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