



WHOLESALE ELECTRICITY MARKET

PROCEDURE CHANGE REPORT: AEPC_2017_03

MARKET PROCEDURE: DETERMINATION OF DSM DISPATCH
PAYMENT TRANCHES AND ADJUSTMENTS

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EXECUTIVE SUMMARY

Purpose

The publication of this Procedure Change Report, and the accompanying Market Procedure, completes the Procedure Change Process conducted by AEMO to consider a new Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments under the Wholesale Electricity Market (WEM) Rules.

Proposed amendments

The proposed new Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments has been developed in accordance with 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 3 DSM Dispatch Payments.
- The process for adjusting relevant calculation parameters.

Consultation

As the AEMO Procedure Change Working Group was not constituted in time to consider this Procedure Change Proposal, AEMO obtained initial comments from the WA Market Reform Program – Reserve Capacity Mechanism Forum 2 (WAMRP-RCM) meeting held on 12 May 2017.

Market Advisory Committee (MAC) members did not consider it necessary to convene a meeting of the MAC to consider this Procedure Change Proposal, nor was a dedicated public workshop held.

AEMO published the Procedure Change Proposal (AEPC_2017_03) and issued a notice calling for submissions on 31 May 2017. The submission period closed on 29 June 2017. No submissions were received.

AEMO's decision

AEMO's decision is to accept the Market Procedure as originally proposed. AEMO considers that the new Market Procedure is consistent with the Wholesale Market Objectives and WEM Rules.

Next steps

The new Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments will commence at 8:00 AM on 1 October 2017.



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1. BACKGROUND

1.1 Regulatory requirements

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

1.2 Context

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, following a period of transition.
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.

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

1.3 Procedure Change Process and Timetable

AEMO published the Procedure Change Proposal and issued a call for submissions on 31 May 2017. These documents are available at:

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

The proposal was progressed using the Procedure Change Process described in clause 2.10 of the WEM Rules with submissions required by 29 June 2017.

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.

2. PROPOSED PROCEDURE CHANGE

This section details the changes that AEMO proposed when the call for submissions was published.

2.1 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, after which the Non-Balancing Facility Dispatch Instruction Payment can be determined.

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 Tranches 1, 2 and 3 must be adjusted proportionally.

2.2 Proposed drafting

AEMO published a draft of the proposed Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments for consultation. The procedure as drafted is available at:

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

AEMO did not provide 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. CONSULTATION PROCESS

3.1 Market Advisory Committee or Working Group

As the AEMO Procedure Change Working Group was not constituted in time to consider this Procedure Change Proposal, AEMO obtained initial comments from the WA Market Reform Program – Reserve Capacity Mechanism Forum 2 (WAMRP-RCM) meeting held on 12 May 2017. A draft version of the Market Procedure was presented. 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.

MAC members were advised of the Procedure Change Proposal but did not consider it necessary to convene a meeting of the MAC to consider the proposal.

3.2 Public Workshop

No public workshops were held in relation to this Procedure Change Proposal.

3.3 Submissions received during consultation period

AEMO commenced the Procedure Change Proposal (AEPC_2017_03) and issued a notice calling for submissions on 31 May 2017. The submission period closed on 29 June 2017. No submissions were received.



4. AEMO'S ASSESSMENT

4.1 Further changes to the Market Procedure

As no submissions were received relating to this Market Procedure, AEMO has not amended the Market Procedure.

4.2 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.
- Electricity Industry (Wholesale Electricity Market) Amendment Regulations (No.2) 2016.
- WEM Rules.

4.3 Consistency with Wholesale Market Objectives

The steps outlined in this new Market Procedure describe the process AEMO must follow to determine the Tranche 2 and Tranche 3 DSM Dispatch Payments that must be paid to DSM Providers for the decrease in energy consumption (in MWh) when a DSP is dispatched. Further, it outlines the process AEMO must 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.

4.4 Implementation of the Market Procedure

The new Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments was developed in accordance with clauses 6.17.6B and 6.17.6F of the WEM Rules, which commence on 1 October 2017.

This Market Procedure does not require system changes by AEMO.

The Market Procedure will not require the Rule Participants to implement any procedural or system amendments before the procedure can commence.

Consequently, AEMO considers that commencement of this Procedure at 8:00 AM on 1 October 2017 will allow Rule Participants sufficient time from the date of publication of this Procedure Change Report to ensure compliance with the Procedure.

4.5 AEMO's decision and commencement

AEMO's decision is to accept the Market Procedure as amended following the consultation period. The new Market Procedure: Determination of DSM Dispatch Payment Tranches and Adjustments will commence at 8:00 AM on 1 October 2017.

AEMO has made this decision on the basis that the new Market Procedure:

- Is consistent with the Wholesale Market Objectives.
- Is consistent with the WEM Rules, Electricity Industry Act and Regulations.
- Has the general support of Market Participants as no submissions were received during the consultation period.



The new Market Procedure for Determination of DSM Dispatch Payment Tranches and Adjustments is available at:

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