ERM Power Limited
Level 3, 90 Collins Street
Melbourne VIC 3000
ABN 28 122 259 223

+61 3 9214 9333
ermpower.com.au

Friday, 3 July 2020

Ms Nicola Falcon
General Manager Forecasting
Australian Energy Market Operator
Level 22, 530 Collins Street
Melbourne VIC 3000

RE: Demand Side Participation Forecast Methodology Draft Determination

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) consultation on AEMO's Demand Side Participation (DSP) Forecast Methodology Draft Determination.

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

http://www.ermpower.com.au
https://www.shell.com.au/business-customers/shell-energy-australia.html

General comments

AEMO's Demand Side Participation Forecast Methodology is an integral part of the process to be implemented by AEMO to comply with the Retailer Reliability Obligation – Best Forecasting Practice Guideline. We acknowledge the modifications made by AEMO to the methodology based on submissions from stakeholders, however, we remain concerned with AEMO determinations in several areas. We offer comments to the Draft determination as follows;

Demand side participation types

ERM Power in its submission to the Issues Paper recommended that to improve clarity that AEMO consider separating out the Network Service Provider's network loading control demand response from the Reliability Events responses into a separate category of Network Loading Control response leaving the centrally dispatched Reliability and Emergency Reserve Trader (RERT) response as its own category renaming the Reliability Events response category to RERT response. We were unable to determine where in the Draft Determination this recommendation was considered and remain of the opinion that separating these two responses provides increased clarity for stakeholders.

[1] Based on ERM Power analysis of latest published information.

We do not agree with AEMO's determination to continue to exclude DSP loads from the DSP calculation when the DSP loads are indicated as "potentially" participating in a RERT program via membership on a RERT Panel. We note AEMO's reasoning "*that RERT panel members are incentivised to bid available for RERT events, and if their bid is accepted by AEMO, their capability to respond is then exclusively reserved for RERT. Consequently, for DSP forecasting purposes, AEMO considers that RERT panel members do not have capacity beyond their nomination in the RERT panel agreement. Furthermore, the DSP capacity of RERT panel members on days when RERT is not required is considered irrelevant for reliability forecasting purposes*." As RERT or the potential for RERT dispatch is excluded as a supply side input from the various reliability assessment forecasts, we do not believe that the exclusion of DSP not contracted for RERT but observed to be price responsive is warranted based on RERT Panel membership and that this observed price response is additional, from a reliability assessment forecasting perspective.

RERT panel members respond to requests from AEMO for RERT contracting availability where a forecast potential Lack of Reserve (LOR) condition is declared. This may or may not align with high market price outcomes.[2] Absent a request from AEMO to respond to a short notice RERT tender, at all other times, RERT Panel members remain free and have been observed to respond to market price outcomes. In addition, RERT Panel members are not obligated to make demand responsive load available to AEMO for RERT dispatch under LOR conditions.

We believe AEMO reasoning in the Draft determination results in a circular outcome, where the exclusion of observed price-based demand response from the DSP values, based on RERT Panel membership only, makes it more likely that RERT Panel or RERT contracting response is required. Then due to this outcome to activate calls for RERT expressions of interest, AEMO determines that some observed demand response should be excluded due to the demand response providers membership of a RERT Panel. We do not agree with this determination.

We believe AEMO's determination should be reviewed and continue to recommend that this area be clarified as only applicable for a load for which a RERT contract has been signed as opposed to a load which may be participating in a RERT panel only. A load has no obligation to provide RERT dispatch until such time as a formal RERT contract has been signed, until that point, a RERT Panel member is available to provide Market-Driven demand response.

Method for calculating demand side participation levels

ERM Power remains concerned by AEMO's use of negative values of DSP in the DSP calculation based on inaccuracy in the allocated "baseline". We consider that whilst variations in baseline can and do occur, this variation in baseline consumption would already be included in AEMO's calculation of probabilistic overall regional maximum demand and as such is already included in AEMO's reliability assessment. Including these values again in the calculated DSP value in effect double counts the same value in the reliability assessment resulting in an overstated potential for unserved energy.

Also, as AEMO's process for identifying a price responsive load is based on observations of historical reduction in consumption at a connection point at a time of a price event, we question how steady consumption or an increase in consumption could possibly be identified as demand response.

We continue to recommend that for calculating input assumptions for DSP to be used in future planning and reliability forecasts, all negative DSP values should be removed prior to calculation of the response probability curves.

As set out in our submission to the Issues paper, in considering the level of DSP available to the market, the use of observed values over the previous three-year period for what are in effect somewhat rare events would of itself add a degree of underestimation of potential DSP, particularly if the analysis includes periods where very high spot market price outcomes have not occurred.

[2] RERT dispatch on 30 December 2019 in Victoria and on 4 January 2020 in New South Wales both aligned with periods of relatively low market price outcomes.

We note that AEMO's RERT report for the period 1 October to 31 December 2019 indicated that on 30 December that "*Between 1500 and 1700 hrs, at least 240 MW of price-responsive load reduced in Victoria in response to high prices (reaching market price cap at dispatch interval ending 1510 hrs)*." This is above the stated DSP value of 185 MW for the Victorian region included in the 2019 Electricity Statement of Opportunities (ESOO).

Similarly, AEMO's RERT report for the period 1 January to 31 March 2020 indicated that on 4 January that "Between 1625 and 2015 hrs, up to 400 MW of price-responsive load reduced in New South Wales in response to high spot prices." On 23 January the report indicated that "Between 1730 and 2000 hrs, up to 360 MW of price-responsive load reduced in New South Wales in response to high spot prices." Again, observed DSP response during these events is above the stated DSP value of 93 MW for NSW included in the 2019 ESOO.

We continue to question the use of the observed 50th percentile value from the probability response curves to assess the level of DSP available to the market at times of a reliability event, where very high prices and the threat of involuntary load shedding would lead to a high DSP response. As indicated in our submission to the Issues Paper, whilst only the 50th percentile value is allocated to DSP response, the full value of any observed demand response is added to the historical demand outcomes for use in the forecasts of future maximum demand outcomes and half hour demand traces used in the reliability assessment modelling. We continue to assert that this introduces bias in the modelling process and results in an unnecessary conservative assumption being introduced for DSP.

We consider that the value used in the reliability assessment should be set at the 90th percentile whilst maintaining the priced based response at the 50th percentile. We believe this would more accurately reflect the level of DSP expected to be available and respond at times of an actual reliability event.

Timing of forecast publication and updates

ERM Power is disappointed that AEMO has determined that the DSP forecast should only be updated when AEMO determines that an update to the ESOO reliability forecast is required. This fails to acknowledge that the DSP forecasts are also an input assumption to the Medium Term Projected Assessment of System Adequacy (MT PASA). We continue to recommend that the DSP values be updated when a change in DSP value equal to 0.5% of a regions maximum forecast demand is observed. This in our view would represent an appropriate threshold to trigger an update to the DSP values. However, we agree with AEMO that an update to the ESOO reliability forecast would only be warranted when a material change, either positive or negative, may potentially result. In our view updating of the DSP forecast is separate to a consideration of an update to the ESOO reliability forecast.

Please contact me if you would like to discuss this submission further.

Yours sincerely

[signed]

David Guiver
Executive General Manager - Wholesale Energy Markets
07 3020 5137 – dguiver@ermpower.com.au