



18 May 2020

Dr Kerry Schott AO
Chair
Energy Security Board

Lodged by email: info@esb.org.au

Dear Dr Schott,

Moving to a Two-Sided Market

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 6,500 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to provide comment on the Energy Security Board's (ESB's) consultation on the potential establishment of a two-sided wholesale market. The CEC broadly supports the intention to move towards a two-sided wholesale market as we believe that greater flexibility in the market and improved visibility of the demand side of the market will complement a future National Electricity Market alongside renewable generation, energy storage, stronger interconnection and energy efficiency. The CEC supports the current rule change process to establish a Wholesale Demand Response Mechanism (WDRM) in the market for the same reasons. We see the move to a two-side market as the next step following the implementation of the WDRM to facilitate the transition of Australia's energy system to one that is cleaner and smarter.

We agree with the proposed benefits provided by the transition to a two-sided market presented by the ESB. In particular, the opportunities presented through the continuing technological advancements in the demand side of the market will be significant. Integrating the demand side of the market into the wholesale market will provide the market operator with additional mechanisms to manage the variable nature of renewable energy. With the Australian Energy Market Operator's (AEMO's) Integrated System Plan and Renewable Integration Study suggesting that renewable penetrations of 75 per cent and above may be possible as soon as 2025, it is encouraging that the ESB is actively pursuing measures to facilitate the transition through wholesale market reform¹.

While technology is rapidly transforming the capability of the demand side of the market, it is important that the transition to a two-sided market does not move ahead of what is technically capable of being provided. The participation levels required by the market will be critical to ensuring the immediate and long-term success of a two-sided market. We agree with the principles presented by the ESB that the long-term goal of the two-sided market should be for full participation of all participants. However, in the short-term, requiring full participation is unlikely to result in the most efficient implementation. The

¹ AEMO, Draft 2020 Integrated System Plan, December 2019. Available at https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2019/Draft-2020-Integrated-System-Plan.pdf
AEMO, Renewable Integration Study Stage 1, April 2020. Available at <https://www.aemo.com.au/energy-systems/major-publications/renewable-integration-study-ris>

CEC proposes that selective participation be the starting point for a market transition to becoming two-sided. This would enable a significant portion of the demand side of the market that is likely to be technically capable to begin to participate. Provided the incentives are appropriately structured, this approach would also allow for the small-scale segment of the demand market to participate if they are technically capable. If done well, selective participation could see rapid innovation in the small-scale consumer sector as the market pushes to capture the benefits of the transition to a two-sided wholesale market.

Relatedly, the incentive structures will be critical to guiding the transition and success of the implementation of a two-sided market. In principle, the requirements on both the demand and supply sides of the market should be created fairly and equally as they both have the potential to impact the stable operation of the system. We also recognise that the level of control of demand bids to meet dispatch targets may not wholly rest with those placing the bids, as is the case for the supply side. The incentive structure should be proportionate with the value created or lost in the market through compliance or penalties for deviation with dispatch targets. For voluntary participants, there will need to be careful balance between discouraging participation and encouraging conforming with targets.

The consultation paper notes there is potential for improvements to the forecasting processes and requirements applied to scheduled participants compared to the current arrangements. The CEC agrees that in the long-term this will be true, and we suggest that in the long-term the aim should be to impose similar requirements on scheduled participants for both sides of the market. However, in the beginning and while transitioning to a two-sided market, this approach will not be practical due to the technical limitations in forecasting ability of some participants. The value in this information from scheduled participants in the demand side will be reliant on the accuracy of the information. The accuracy of the information provided into these processes will be reliant on the monitoring and verification framework.

Finally, the CEC encourages the ESB to continue to ensure that the ongoing workstreams across the market bodies, including the other post-2025 market review projects such as the ahead markets development, remain consistent with the development of the two-sided wholesale market. It is important that the work underway in the other market bodies complements the work the ESB is undertaking to explore options to reform the market. The Australian Energy Market Commission (AEMC) has recently finalised consultation on its second draft determination on the WDRM and it is important that this work continues. The AEMC is also continuing work on the Coordination of Generation and Transmission Investment market review. AEMO has lodged a pending rule change proposal with the AEMC regarding the integration of energy storage systems into the National Electricity Market. It has also started work on technical standards for DER which – taken forward – will be important to longer term market interactions of these systems. It is therefore critical that the AEMC and AEMO conduct these processes with input from the ESB and that the AEMC's thinking on these processes is led by the ESB's strategic direction. The implementation of any outcomes from these processes must be compatible with work the ESB is undertaking through its post-2025 market design process.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact Tom Parkinson, Policy Officer, on (03) 9929 4156 or tparkinson@cleanenergycouncil.org.au or myself, as outlined below.

Yours sincerely,



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