
Wholesale Electricity Market Rule Change Proposal Submission Form

RC_2012_02 Relevant Demand of a Demand Side Programme

Submitted by

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Submission

1. Please provide your views on the draft report, including any objections or suggested revisions.

Synergy supports RC_2012_02 which acts to adopt a more transparent and practical methodology (Approach A) to determine Relevant Demand for Demand Side Programmes (DSP) with no material impact on the accuracy of determination of same when compared with the current methodology (Approach B) implemented through RC_2010_29.

Purpose of transparency

In any market, transparency is a key factor in promoting economically efficient outcomes: it reduces information asymmetry and promotes competitive behaviour as participants seek to take advantage of known opportunities which in turn drives efficiency.

Approach A and Approach B differ in determining a DSP's Relevant Demand in the process by which aggregation is applied: the former aggregates the calculated Relevant Demand of each Associated Load while the latter aggregates the Associated Loads prior to calculating Relevant Demand.

The key outworking of Approach A is that each Associated Load can independently assess its Relevant Demand and hence contribution to the DSP while this is not possible under Approach B as an individual Associated Load does not know and cannot know the profiles of the other Associated Loads which is necessary to calculate Relevant Demand. The lack of transparency inherent in Approach B introduces uncertainty about exactly what contribution

to Relevant Demand is made by each Associated Load, especially where loads churn or materially change consumptions patterns or levels.

The lack of transparency inherent in Approach B:

- (i) inhibits efficient decision making by participants as uncertainty prevails at the Associated Load level in regard to determining their Relevant Demand and hence reward for participation;
- (ii) increases transactions costs as the Aggregator must seek to explain the more complex process of determining an Associated Load's contribution to the DSP's Relevant Demand and why it can be impacted by other loads as they churn through the programme or alter their consumption levels;
- (iii) introduces concerns about equitable outcomes as independent verification by Associated Loads is not possible; and
- (iv) restricts possibility of Associated Load churn.

Synergy posits that none of these issues exist under Approach A.

The IMO's comments

Synergy thanks the IMO for articulating its concerns regarding a change to Approach A at this early stage of the consultation process, given it allows participants to directly address those concerns.

In summary the IMO's concerns relate to:

- (i) Approach A is not as accurate as Approach B;
- (ii) an inconsistency with the approach proposed by RC_2010_29; and
- (iii) adoption of Approach A potentially leads to discrimination.

1. Less accurate approach

The IMO's introduction to this proposed rule change suggested that Approach A "...*would result in a measure of Performance of a DSP that appears less accurate than under the current approach (Approach B)*" and that they (IMO) would have difficulty in supporting this rule change proposal based upon the information presented in Figures 1 and 2 of RC_2012_02.

Synergy commented at the MAC¹ that the two figures shown in RC_2012_02 provided the best reasons for rejecting it. In making this statement Synergy was not seriously saying the proposed rule change should be rejected but instead was simply pointing out that the two figures were extreme load profiles and therefore unlikely to be consistently observed from actual customer data.

¹ Synergy notes that this comment was not recorded in the minutes.

Synergy did not see this as being a problem recognising that Data Analysis Australia (DAA)² had indicated that no bias existed between the two approaches after examining six DSM groups of varying sizes, (from 1 to 30 Associated Loads) and four DSM scenarios designed to represent extreme DSM profiles (each of 5 Associated Loads), and DAA further observed that there was little difference between Relevant Demands when changing the order of aggregation. In other words, when reviewing for differences or biases in Relevant Demand determination between the two approaches DAA based its examination on a data set of loads likely to be a more reasonable representation of actual circumstances, as opposed to those represented by Figures 1 and 2, and therefore Synergy takes the view that it is reasonable to rely on DAA's findings when assessing the merits of adopting Approach A as opposed to remaining with Approach B. Synergy recalls that this conclusion was later supported by the IMO's own analysis based on current DSPs which showed that in aggregate both methods delivered largely the same result.

To summarise, to the extent that a trade off exists between accuracy in Relevant Demand determination, noting that the evidence supporting the position of a diminution of accuracy is associated with Approach A is not strong or well demonstrated, Synergy takes the view that benefits of improved transparency inherent in Approach A outweigh the potential risk of less accurate Relevant Demand determinations.

2. RC_2010_29 - Single point reference

Synergy observes that the practical outworking of the regime implemented by RC_2010_29 is that the market deals with DSPs by dealing with each and every Associated Load in regard to assessing eligibility and in assessing the Facility Reserve Capacity Deficit Refund which requires that the expected minimum consumption be specified. Accordingly, Synergy submits that there is no clear and unassailable argument that in adopting Approach A that the thrust of RC_2010_29 (market deals with or sees the DSP as a whole) is compromised or put aside. The reality is that the DSP facility can comprise a number of Associated Loads which must be dealt with individually as part of market processes otherwise the DSP concept becomes unworkable.

3. Inconsistent with Market Objective (c)

The IMO, in assessing the proposed rule change against the market objectives, has suggested that Approach A is potentially inconsistent with market objective (c). The reason given is that unlike a generator, whose performance is assessed at one connection point, determination of Relevant Demand for a DSP facility is performed at the individual load level and therefore potentially across a number of connection points. Reduced to its basics, this turns on where in the Relevant Demand determination process the aggregation occurs and whether inconsistency arises with respect of Market Objective (c) in shifting the point of aggregation.

² Data Analysis Australia in their report "Comparison of Alternative Relevant Demand Calculation Methodologies – July 2010"

Synergy notes that it has previously provided external legal advice regarding the interpretation of Market Objective in respect of another proposed rule change. In that advice there was considerable discussion related to establishing the concepts of direct and indirect discrimination. The advice can be summarised as: direct discrimination results from different treatment of some from a group of similar entities, whilst indirect discrimination results from treating different entities the same way.

If different technologies have different requirements, as is the case for generators and DSPs, and are treated in a way which caters to and takes account of these differences then most likely direct discrimination would not arise. In line with this advice, Synergy suggests that there is a risk of indirect discrimination by always trying to treat different technologies as if they were the same, more specifically: forcing different technologies to perform the same gives rise to indirect discrimination. In this regard, DSPs have a particular structure being represented as a collection of Associated Loads which does not arise for a generator. Accordingly, it is equally arguable that adopting Approach A avoids issues of indirect discrimination and so would be consistent with objective (c).

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

This rule change, through adopting Approach A in determining Relevant Demand of a DSP, will better achieve the WEM objective:

- (a), through increased transparency in determining Relevant Demand at the Associated Load level which will drive more efficient decision making and also reduce transactions costs;
- (c), by removing the possibility of indirect discrimination.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Synergy believes that this rule change will result in limited or negligible impact on its IT or business systems.
