



18 May 2020

Dr Kerry Schott
Chair
Energy Security Board

Submitted via email: info@esb.org.au

Dear Dr Schott,

ESB: MOVING TO A TWO-SIDED MARKET – CONSULTATION PAPER

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback on the ESB's two-sided market consultation paper.

As technology and the generation mix evolve, it is important that the NEM remains flexible so that it can incorporate new technologies as they emerge and are adopted by consumers and other participants. Origin therefore supports further work on the concept of a two-sided market as a long-term vision for the NEM but considers that a progressive approach is required to ensure that reforms move in line with the technology and size of the demand-side potential.

However, it is not clear if that is the intent of the work program. The ESB should clarify if it intends for two-sided market reform to be a long-term goal and provide further information on how it will progress work on this design practically, in light of other relevant programs already under way.

The concept of a two-sided market is most likely a long-term ideal

The paper states that a move to a two-sided market would have several benefits such as improved forecasting accuracy and more efficient price signals. While we agree that there is potential for these benefits to be realised, they will only accrue if the services and technological advances that would underpin a two-sided market are developed and ultimately adopted by consumers.

We understand that historically, some smaller consumers have had little appetite to participate more actively in the market, although this is changing. At the same time, it is likely that there are limitations to the technical capabilities of some participants (e.g. self-forecasting for smaller players) or prohibitive costs involved in the move (e.g. to comply with dispatch targets). It is also not clear what the current size or potential of the controllable load market is.

While technology is improving, there remains uncertainty about the pace and magnitude of adoption. It is unlikely that the benefits of a full two-sided market would be realised in the short-to-medium term. However, it is not clear what implementation timeframes the ESB is considering for its two-sided market design. In the directions paper published in April 2020, the ESB lists two-sided market reform as intermediate, rather than as longer-term initiative – any clarity on this would be welcomed.

It is also unclear if the ESB intends to apply a progressive approach to two-sided market reform, with changes made when needed to reflect the actual uptake in technologies and services and the technical capability of market participants.

A progressive approach would ensure that only measured and proportionate changes are made, while keeping the NEM flexible so that it can adapt to technological progress. However, it is important for such an approach to first identify the current and emerging barriers to the integration and efficient use of new technologies on both the demand and supply sides. Doing so would highlight what the existing problems are and provide scope to roll out proportionate solutions.

The two-sided market paper provides a high-level description of the potential changes involved in moving to a two-sided market. These include changes to participant categories, the level of scheduling, scheduling requirements and connection point relationships. It would be useful however, for the ESB to clarify the extent to which these are likely to be barriers in moving to a two-sided market.

As an example, the paper discusses the concepts of “traders” and “end users” for participants but does not identify what the issues with the existing participant categories are. It would be useful to explore why there has been limited uptake of the “scheduled load” category. Similarly, we understand the current participant categories may not adequately integrate some newer technologies such as batteries, given that the categories do not explicitly account for participants that can be both load and generation. If it is the intention for the two-sided market program to focus on issues such as these, then this too should be made clear – though we note similar work is already underway.

In addition, it is also not clear which aspects of a two-sided market the ESB intends to progress in the “intermediate” term, given several major reforms under way which may already be seeking to address these issues. For example, AEMO has submitted a rule change request to integrate energy storage systems into the NEM and the wholesale demand response mechanism will soon be implemented.

Given the above, we would welcome clarity from the ESB on what its two-sided market work program will entail practically.

Regardless of the approach taken, the ESB should incorporate any learnings and impact from existing reforms such as the wholesale demand response mechanism as well as other programs that are already under way that address new technology integration into its two-sided market design work.

The ESB should provide further information on the costs of reform

Introducing a two-sided market will not be without significant costs to participants, the market and consumers which must be weighed against the benefits of reform. We consider that the ESB should set out and discuss the costs of implementing a two-sided market in more detail, including the likely distributional impacts, such as the costs to smaller participants.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



Steve Reid
Group Manager, Regulatory Policy