

23 May 2018

Ms Sarah-Jane Derby
Project Leader, Reliability Frameworks Review
Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By electronic lodgment: <https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Ms Derby

RE: RELIABILITY FRAMEWORKS REVIEW DIRECTIONS PAPER (EPR0060)

Aurora Energy welcomes the opportunity to provide feedback on the Australian Energy Market Commission (AEMC) Reliability Frameworks Review (the Review) Discussion Paper. Aurora Energy is a Tasmanian Government owned energy retailer, providing energy services to over 99 per cent of Tasmania's electricity customers. As TasNetworks' largest customer, Aurora Energy supplies 279,636 Tasmanian residential and business customers. Aurora Energy's core focus is on its customers, by creating valued outcomes and providing sustainable returns to the Tasmanian community.

Aurora Energy notes that the Tasmanian energy market exhibits a number of attributes that differentiate it from the rest of the National Electricity Market (NEM). Unlike other NEM jurisdictions, Tasmania is energy constrained rather than capacity constrained, and the State's generation is dominated by hydro-electric generators. Combined, these attributes present unique challenges with respect to reliability within the Tasmanian region, with ongoing reliability largely managed through prudent water management practices. Aurora Energy is of the view that the AEMC must take into account Tasmania's unique circumstances when recommending changes to the current market design.

As noted in the Directions Paper, the Review forms part of a broader reliability work program being undertaken by the AEMC and is being progressed separately to the design of the Energy Security Board's proposed National Energy Guarantee (NEG). Aurora Energy observes that there is an interaction between the NEG and some of the workstreams of the Review (including strategic reserves, the need for a day-ahead market and mechanisms to facilitate demand response) and is concerned that there is a risk of regulatory duplication that could result in unnecessary costs being passed through to consumers. Aurora Energy therefore urges the AEMC to ensure that any proposed changes being considered by the Review are progressed in coordination with, rather than separate to, the detailed design of the NEG.

Aurora Energy's comments and views on the four key streams of work presented in the Discussion Paper are provided below.

Forecasting and information provision

Aurora Energy is supportive of the AEMC's intention to enhance reliability through improved forecasting, and supports the proposal for greater reporting on the differences between forecast and actual outcomes in the short term. Aurora Energy is of the view that a common source of reporting on forecasting accuracy would increase transparency and be of benefit to both market participants and AEMO with respect to decision making, risk management and improving forecasts (where necessary).

However, Aurora Energy does not support the AEMC's long-term proposal to impose a retailer forecasting obligation, whereby retailers are required to provide load forecasts to AEMO as well as the dispatch intentions and expectations of distributed energy resources. Aurora Energy is of the view that the proposal to amalgamate forecasts from retailers, who all use disparate forecasting methodologies, is likely to create more uncertainty and questions the effectiveness of such an approach in improving load forecasting.

Firstly, placing a forecasting obligation on retailers fails to recognise that at any point in time a significant portion of large contract customers do not have forward retail contracts in place. A retailer's internal risk management policies will likely dictate the extent that uncontracted load is included in forecasts, and generally only contracted positions are granularly forecast by retailers. In effect this would see that a significant portion of market demand, in the form of large customer load that is uncontracted forward with any retailer, may not be included in any of the retailer forecasts required to be provided to AEMO under a retailer forecast obligation. Aurora Energy is of the view that this would impact on the accuracy of any aggregated load forecasts within a region.

Secondly, retailers' load forecasting may vary widely depending on the wholesale strategies adopted by each individual retailer. These strategies may vary by market segment, or by customer, subject to the range of products provided by a retailer. For example:

- a retailer may deem a load-following hedge with a generation counterparty appropriate to manage market risk for a particular market segment or customer; and/or
- for some large customers, a retailer may offer spot and progressive purchase products that pass on market risk to customers. These customers subsequently manage this market risk themselves through demand side management of their load.

In both of the above examples, the level of forecasting scrutiny and effort undertaken by a retailer is significantly less than for risk exposed segments, as the generation counterparty, or a customer, has acquired the retailer's volume risk. Furthermore, demand side management is ultimately subject to the decisions made by third parties over which a retailer has no control, and hence any estimation by a retailer of dispatch intentions or demand side responses would likely result in inaccurate forecasts. Any obligation on retailers to provide forecasts would have to exclude or exempt such products (which again would impact on the accuracy of any aggregated load forecasts within a region).

Aurora Energy is also concerned that a retailer forecasting obligation would represent a significant change from current arrangements and would likely require many retailers to increase operational resources to meet forecasting obligations. Any increased operational burden would inevitably benefit large vertically integrated retailers that could more efficiently absorb the operational requirements that a retailer forecasting obligation would impose. While the AEMC has indicated that it may be appropriate to exempt smaller retailers from a demand side reporting obligation to address this issue, Aurora Energy questions the effectiveness of an approach that would exclude smaller retailer load (or segments of) from the forecast aggregated load in a region and/or introduce increased operational regulatory burden on retailers.

Day-ahead markets

Aurora Energy supports the AEMC's conclusion that further work is required to identify the problem that a day-ahead market would address. Aurora Energy is of the view that the costs from incorporating either a European or US style day-ahead market would outweigh any benefits given that a clear problem has not been identified at this time.

Aurora Energy notes that AEMO is currently identifying the existing ahead features of the NEM that may require change and compiling evidence of deficiencies that it considers need to be addressed. Aurora Energy encourages the AEMC to consider how any desired improvements identified by AEMO can be achieved through targeted improvements to existing arrangements, rather than the introduction of a centrally facilitated day-ahead market design.

Wholesale demand response

The Directions Paper concludes that there is a lack of visibility regarding the extent to which wholesale demand response is present in the NEM. Aurora Energy notes that there is a range of products available to some customer segments that support wholesale demand response. These "spot pass through" or "progressive purchasing" contracts provide customers with varying levels of exposure to spot prices, with the customer having the incentive to respond to high spot prices by reducing demand. As these products inherently expose customers to greater levels of spot market risk they are generally only offered to more sophisticated large customers.

Aurora Energy does not support the two options presented in the Discussion Paper that propose the transfer of the value of (Option 1), or responsibility for (Option 2), demand-responsive load from the Financially Responsible Market Participant (FRMP) to an aggregator. Specifically:

- Aurora Energy is concerned that such an approach will further complicate customers' relationships with the energy market, and that customer protections will likely be diluted due to the introduction of another party in the relationship between the customer and the energy market.
- Option 1 fails to appreciate the manner in which retailers manage market risk, and it is unlikely that any value of wholesale demand response will accrue to the third party from the FRMP in the event that the demand response is scheduled. As well, under the proposed baseline approach, risk premiums for customers would likely increase to reflect the volume risk associated with consumption being under the control of a third party, as the FRMP will be exposed to higher spot prices should the third party not ultimately provide the scheduled demand response.
- The technical feasibility of Option 2 is questionable given the requirement for multiple meters behind the connection point. Furthermore, the intent of Option 2 can effectively be achieved under current arrangements by way of an aggregator taking on full responsibility for demand responsive and non-demand responsive components of a customer's load (i.e. becoming a retailer for the entire customer load), with such an approach having the benefit of not diluting customer protections.

Strategic reserve

Aurora Energy notes the AEMC's conclusion that some form of strategic reserve is required to act as a safety net in the event that it is assessed that the market may not meet the reliability standard. Aurora Energy also observes that the high level design of the National Energy Guarantee (NEG) proposes a 'Procurer of Last Resort' role for AEMO, whereby AEMO may procure additional reserves in the event that the reliability standard is not forecast to be met. This procurement would be

facilitated by the use of a strategic reserve/enhanced Reliability and Emergency Reserve Trader (RERT) mechanism.

Aurora Energy is of the view that market intervention through a strategic reserve or RERT (or modified version of) should be minimised as market participants are best placed to manage this risk in the most efficient manner and at the lowest cost to consumers. While Aurora Energy agrees that some form of strategic reserve is required to act as a safety net in the event that it is assessed that the market may not meet the reliability standard, this should only be used as a measure of 'last resort'. Strong governance is required to ensure that procurement occurs in a manner as economically efficient as possible to minimise market distortions and costs. Furthermore, the governance and controls need to ensure that the RERT (or modified version of) mechanism is only used as a measure of last resort such that it is not activated unnecessarily, as was recently evidenced by the RERT during the 2017-18 summer period which, when activated, resulted in costs in the order of \$65,000 per MWh being passed through to customers.

Aurora Energy notes that AEMO has recently submitted two rule change requests in relation to the existing RERT mechanism. Aurora Energy supports the AEMC's proposal to explore the issue of strategic reserves and potential improvements to the RERT through those rule change processes rather than through the next stage of the Review. Aurora Energy urges the AEMC to consider the proposed integration of an enhanced RERT within the NEG as it considers these proposed rule changes.

If you have any questions regarding this submission please contact Hayden Moore, Regulatory & Policy Manager at hayden.moore@auroraenergy.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kane Ingham', written in a cursive style.

Kane Ingham
General Manager Commercial Services