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AEMC Reliability Frameworks Review

Submission on the Directions Paper – May 2018

BlueScope Steel (**BlueScope**) welcomes the opportunity to provide comments in response to the AEMC's Directions Paper for the Reliability Frameworks Review.

Please see our comments to the questions posed in the paper in the table overleaf.

Please contact BlueScope's *Manager Energy Sourcing and Utilisation* if further comment or clarification is required.

Yours sincerely

A handwritten signature in blue ink, appearing to read "BCarter".

Bridgette Carter
Manager Energy Sourcing and Utilisation
BlueScope Steel

Observation/Issue from Directions Paper	Comment/Action
Forecasting and Information Provision	
<p>Greater reporting of the differences between forecast and actual outcomes, especially in relation to the 30-minute pre-dispatch, short-term PASA and medium-term PASA forecasts.</p> <p>Submissions due on the following:</p> <ul style="list-style-type: none"> • forecasting information that should be published • methodologies as well as data including forecasting costs • who is best placed to undertake further periodic reporting. 	<p>The AEMC report showed that the differences between forecast and actual demand are relatively large compared to average and maximum regional demand. They were also able to show that the differences between forecast and actual values have neither improved nor deteriorated over the sampled time. Furthermore, there was also no obvious minimising of differences between forecast and actuals as the time-period approached real-time.</p> <p>BlueScope therefore supports regular reporting on the differences between actual and forecast values so that areas for increased accuracy can be identified and improvements can be made to the forecasts. This would provide greater transparency and certainty to the market.</p> <p>From the AEMC report it is understood that the AER as well as the Reliability Panel both undertake a similar analysis in forecasting. BlueScope has no preference for the entity best placed to carry out this activity, but notes that it should only be done by one party to avoid doubling up on this task, removing any potential for inconsistencies and allowing for a better resources allocation across the entities.</p>
<p>There is currently work being undertaken by Australian Energy Market Operator (AEMO) and Australian Renewable Energy Agency (ARENA) to enable five-minute ahead self-forecasting by utility-scale wind and solar projects on a voluntary basis, as a "trial".</p> <p>Should a self-forecasting obligation for wind and solar generation be implemented through the NER?</p>	<p>Results of the trial should be published to understand if market participants can provide increased accuracy in the forecasts compared to current AWEFS or ASEFS. If an improvement in forecasting is found, BlueScope would support a self-forecasting obligation for utility scale wind and solar projects embedded into the regulatory framework.</p>
<p>An option to deal with greater volumes of distributed energy resources could involve a retailer forecasting obligation of their own load, and submitting this information into AEMO's systems. This could occur through the submission of individual forecasts, or by retailers appointing a third-party forecast provider (e.g. a DNSP bearing in mind that DNSPs forecast for their own purposes) to produce an aggregate forecast.</p> <p>Stakeholder views are wanted on ideas relating to a retailer forecasting obligation as discussed above, including the rationale for such an obligation, how it could be implemented, and the potential costs.</p>	<p>Although this arrangement would seek to promote accurate forecasting and efficient demand response decisions, BlueScope has concerns relating to its implementation:</p> <ul style="list-style-type: none"> • Additional costs for retailers forecasting their own loads would most likely be passed on to the consumer. • The risks relating to forecasting may be passed on to the consumer on the assumption that they are better placed to produce them. This is likely to not only be difficult but potentially costly for consumers to accomplish. <p>BlueScope requests that the design and implementation of this measure be carefully assessed, with particular focus on the relative benefits of enhanced forecasting relative to the potential costs and additional obligations that may be imposed on customers.</p>

Day Ahead Markets	
<p>Provide the system operator, market participants (both demand and supply side) with more, or better quality, information so that they can incorporate this information into their unit commitment or demand response decisions and bids/offers.</p> <p>Changes may include:</p> <ul style="list-style-type: none"> • Load would provide bid, which would provide information on their expected demand at each dispatch interval ahead of real time • At some point, ahead of real-time the bids and offers of market participants would become financially binding • Market participants would still be able to trade away from their positions in the ahead market in the real-time market. • Introduction of a multi-settlement system – rebidding in the ahead market. 	<p>BlueScope supports a move to Day Ahead Markets and we agree with the following benefits:</p> <ul style="list-style-type: none"> • A reduction in volatility could be seen since there would be higher transparency and price certainty in the day ahead market which would also assist with risk management. • Load side participation through bidding at the ahead stage may also facilitate increased levels of demand response as well as increasing the efficiency on the demand side more generally. This may also prove to be valuable in providing visibility of demand side response as a means for satisfying a reliability obligation under the National Energy Guarantee. • An increase of information in the market around generator bidding could also improve the efficiency of overall dispatch outcomes in the market putting downward pressure on price. A reduction in the likelihood of poor bidding behaviour could also be achieved. The current 5-minute dispatch and pricing framework results in a sub-optimised market due to a lack of notice. • AEMO would be better equipped to work through solutions if generators were to withdraw and they would also be able to more efficiently use emergency reserves which should reduce the number of out of market interventions needed to maintain system security and reliability. <p>Furthermore, with the introduction of 5-minute settlement in 2021, under a day ahead market, the electricity market will have greater alignment with the gas market. This would give greater certainty to gas generators, resulting in greater levels of liquidity in the market which should lead to a reduction in the number of price spikes.</p> <p>For the day ahead market to have its intended impact, the use of the day ahead market would need to be mandatory.</p> <p>BlueScope does have some concerns however, regarding how renewable generation will be involved in the Day Ahead Market and their liability under the NEG. This will be a big change from their current risk profile whereby they are used to generating when they could and being off at other times with no ramifications. If renewables are required to nominate some of their generation into the Day Ahead Market, this would incentivise them to firm their bids by buying demand response or introducing other technologies e.g. batteries. On a positive note, this may help to develop the market for firming.</p> <p>The concern lies in instances where renewable generators are unable to provide firming products themselves. Renewables may need to contract with dispatchable generation, which could result in the further consolidation of the position of established generation providers in the market by inhibiting the ability (or desire) for smaller renewable generation players to enter the market.</p> <p>BlueScope suggests that the implications for renewables, and the potential to increase barriers to entry and the resulting impact on competition, will need to be addressed in design and implementation of a day ahead market structure.</p>
<p>To provide the system operator (rather than participants) with a schedule that centrally coordinates unit commitment decisions.</p>	<p>BlueScope does not believe this would be in the best interests of the market. While BlueScope does agree with the fact that the system operator is best placed to make unit commitment decisions, the system operator will not be able to receive adequate information needed to make accurate decisions.</p> <p>BlueScope is concerned about the cost of the fundamental change to the competitive underpinnings of the market design and whether any benefits of such a change would outweigh the implementation costs.</p> <p>BlueScope believes that the intent of this proposal to increase the efficiency outcomes in the NEM wholesale market in relation to reliability and security outcomes will be satisfied by the other Day Ahead Market objectives put forward in the AEMC paper.</p>

Wholesale Demand Response	
<p>Two options have been suggested by the AEMC that could allow multiple parties, for instance a specialist demand response aggregator and a retailer, to engage a single consumer behind a connection point without that being contingent on the original financially responsible market participant:</p> <ol style="list-style-type: none"> 1. Transferring the value of the wholesale demand response from the existing FRMP to the aggregator 2. Transferring spot market responsibility for demand responsive load from the existing FRMP to an aggregator. 	<p>BlueScope supports the proposal to allow for multiple parties to engage a single consumer behind a connection point. With the inclusion of a specialist demand response aggregator and the implementation of multi-settlement in the day ahead market, the issue of how to pay for demand response would be resolved. This is due to there now being a settlement in the day ahead market to pay a deviation against. This should facilitate visibility of and an increase in wholesale demand response.</p> <p>BlueScope has some concerns however around the wealth transfer of this form of mechanism, whereby the retailer and/or aggregator is receiving much of the benefit merely for organising the mechanism. This issue should be addressed by developing an equitable framework for the implementation of wholesale demand response including any value as an offset against the reliability guarantee under the National Energy Guarantee.</p>
<p>Providing additional incentives for retailers to offer demand response products.</p>	<p>BlueScope is against any proposal that would create a retailer incentive fund or scheme to create and market demand response products. Retailers do not need an extra monetary incentive to facilitate wholesale demand response when the option is already available to them.</p>
Strategic Reserve	
<p>Rule change request from AEMO to reintroduce the long-notice RERT provisions in the NER by mid-2018 to enable AEMO to procure reserves further out for summer 2018-19.</p>	<p>BlueScope supports the rule changes regarding enhancing the RERT as well as the changes to increase the procurement lead time from 10 weeks to nine months. This should allow more parties to be involved in the RERT process which should increase competition and lead to a reduction in the price of using this mechanism.</p>
<p>Rule change request from AEMO to enhance the RERT.</p> <p>Specifically:</p> <ul style="list-style-type: none"> • Allowing reserves to be procured up to one year ahead of an identified shortfall under an annual contract. • If a longer-term requirement is projected, that reserves be allowed to be procured for up to three years (in circumstances where this would be at a lower overall cost), effectively implementing standing reserves. • AEMO considers that the trigger for procuring reserves, and the determination of the volume to be procured, should be in the context of a broader risk assessment which should consider the risk of unserved energy, not just the expected value. 	

Other

BlueScope is concerned by the amount of work that is currently ongoing (Frequency Control Frameworks Review, Forecasting, Wholesale Demand Response, National Energy Guarantee, Day Ahead Market, Strategic Reserve, etc).

With so many changes being discussed and investigated at once, thoroughly understanding the interaction between the options is extremely important. If numerous changes are implemented at once the direct effects of any changes made, whether they be positive or negative, may not be able to be clearly understood amongst other changes. Furthermore, implementing too many changes could have unintended consequences in the market, including negatively impacting the efficiency of the market and prices for consumers.