

18 May 2018

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged electronically: www.aemc.gov.au

Dear Mr Pierce,

RE: Reliability Frameworks Review Directions Paper (EPR0060)

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 solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 5,000 solar 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 respond to the Australian Energy Market Commission's (AEMC's) Reliability Frameworks Review Directions Paper. This review is an important component of the AEMC's broader security and reliability work program, which is valuable in ensuring regulatory frameworks support the integration of renewable energy technologies into the National Electricity Market (NEM).

As noted in the Directions Paper, there are various evidence gathering processes and trials underway that could provide insights into elements being considered in this review. A key principle of regulatory development is that it should be evidence based to address clearly identified problems. Given this, we recommend the AEMC should not make recommendations in its Final Report for regulatory changes without first receiving the results of these evidence gathering processes and trials. This is especially the case where the process currently underway is a proof-of-concept project.

Forecasting and information provision

The AEMC's analysis indicates a level of over forecasting of actual demand values but that the size of the differences between the actual and forecast outcomes has not increased over time. Accurate forecasting is key to efficient market planning and operations and is an important component of the proposed National Energy Guarantee's (NEG's) reliability requirement. We note and support the collaborative way in which the Australian Energy Market Operator (AEMO) is already working to improve forecasting. We also support the AEMC's suggestion that further improvements could be made through periodic investigation of and greater reporting on the differences between

forecast and actual outcomes. We suggest the following additional amendments that will enhance this process:

1. Disclose the inputs, assumptions and methodologies that are used in calculating AEMO's forecasts.
2. Include a process for participants to periodically contribute to AEMO's methodologies.
3. Include trend analysis in the reporting of forecast performance in order that participants can better understand where problems may be.
4. Outline any changes made by AEMO to the forecasting process to address identified problems.

In the medium term, there could be benefits from utility-scale wind and solar projects submitting their own forecasts as an Unconstrained Intermittent Generation Forecast in place of AEMO's Australian Wind Energy Forecasting System and Australian Solar Energy Forecasting System forecasts. The CEC supports the Australian Renewable Energy Agency (ARENA) and AEMO trial on this and we have several members looking to participate. However, we would not support the AEMC concluding as part of its review that a self-reporting obligation for wind and solar generation should be implemented in the National Electricity Rules before the outcomes of the ARENA-AEMO trial are known.

If the trial proves successful, self-reporting should be on an opt-in basis as is intended in the trial documents. The various technologies and technology providers are not yet established enough to support mandatory self-reporting at a reasonable cost. The significantly higher costs to these participants from a mandatory obligation could create a barrier to entry for new developments.

The CEC also cautions against the AEMC making early conclusions on longer forecasting horizons for self-reporting. While the Directions Paper states that AEMO's IT interface can accommodate a longer forecasting horizon than the upcoming dispatch interval, an investigation into whether this capability is possible for wind and solar generators is necessary and if it is possible, that it would not place an onerous cost on these participants.

Finally, the option of placing an obligation on retailers to provide demand-side forecasting is a significant change to current arrangements. The CEC considers this proposal's potential benefits need to be carefully weighed against the cost of the additional regulatory requirement, particularly for smaller and new entrant retailers.

Day-ahead markets

The CEC understands that the AEMC's review has received little feedback on the deficiencies with the existing market model that could be addressed from a day-ahead market. We also understand that AEMO is currently compiling evidence of deficiencies it has identified to contribute to the review. We recommend the AEMC allow review participants to assess and respond to AEMO's contribution before the AEMC completes its final report. All participants should have a clear understanding of what elements of the existing market design are no longer serving their purpose and the materiality of these

deficiencies to evaluate whether introducing a day-ahead markets is a balanced response.

Should material deficiencies with the existing market model be identified and a day-ahead market justified, the CEC considers a staged approach of implementation along the spectrum of objectives appropriate. Progressing reforms that move along the spectrum should only be undertaken where it is considered beneficial to do so to address an enduring deficiency.

Demand response

The CEC supports facilitating increased demand response in the wholesale market. Wholesale demand response is theoretically sound but complex to implement in practice, as evidenced by the previous process to develop the Demand Response Mechanism.

We welcome the work undertaken by the AEMC to consider further options to facilitate wholesale demand response and welcome any potential learnings from the ARENA-AEMO demand response trial that could assist this. The CEC appreciates this trial is focused on off-market demand response used during periods of extreme peaks in demand where the market has failed deliver reliability, but we consider there are likely to be valuable insights, particularly in relation to establishing baselines.

In considering the best approach to facilitate demand response in the wholesale market, the AEMC should be looking to encourage and incentivise retailer engagement with the demand response market and product innovation that delivers demand response, particularly from smaller and new entrant retailers. We also suggest the AEMC thoroughly consider the incentive structures to provide demand response on-market versus off-market. It is our preference that as much as practicable, demand response should be incentivised to partake in regular wholesale market operations and not solely as an off-market safety net measure such as Reliability and Reserve Trader (RERT) or a strategic reserve mechanism. As such, any mechanism to facilitate more wholesale demand response must be considered in conjunction with the RERT or a strategic reserve.

The Directions Paper notes that the strategic reserve is no longer being considered through this review process given AEMO's two rule change proposals to enhance the RERT. We caution against the AEMC considering an enhanced RERT or strategic reserve completely in isolation through these rule changes. For example, AEMO's enhanced RERT proposal discusses the potential for availability payments and procurement periods of up to three years. There is a potential that these could provide an incentive for participants to hold their demand response off market should the certainty provided by these payments over a long period of time prove attractive. This should be explored in the AEMC's Final Report and inform the demand response options.

Strategic reserve

The CEC supports the continued availability of a safety net measure for AEMO to call upon in extreme demand periods when the market has failed deliver reliability. As mentioned above, we consider, however, that an enhanced RERT or strategic reserve should not be evaluated in isolation of the reliability frameworks more broadly through separate rule changes.

The intent of the Reliability Frameworks Review is to examine the regulatory and market frameworks associated with reliability in a holistic manner to ensure reliability frameworks that can continue to deliver the NEM's existing high reliability performance as the market transitions towards cleaner forms of energy. The CEC urges the AEMC in its Final Report to continue to consider the enhanced RERT or strategic reserve. As a minimum, the Final Report could explore the weaknesses with the current RERT framework, discuss the incentives matter discussed above and evaluate the potential distortionary impacts of a safety net measure.

More generally, the Final Report should also comment on how the AEMC's final recommendations, any safety net measure and the reliability obligation under the NEG effectively integrate together and complement each other to ensure robust and balanced reliability frameworks for the NEM.

Thank you for the opportunity to provide our views on these matters. Please contact me on the below details for any queries regarding this submission.

Sincerely,



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