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EnergyAustralia
LIGHT THE WAY

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Dear Commissioners,

2018 – AEMC – Reliability Frameworks Review – Directions Paper

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the AEMC's direction paper on the *Reliability Frameworks Review* (the Review).

Forecasting

As detailed in our submission to the Interim Report, EnergyAustralia supports efforts made by AEMO to improve forecast accuracy and transparency. A greater understanding of methodology and inputs used to develop dispatch and Projected Assessment of System Adequacy (PASA) forecasts will be valuable in identifying possible forecasting improvements and improving accountability for forecast accuracy.

However, EnergyAustralia has reservations regarding the proposal for AEMO to use retailer-developed load forecasts and believe further work is needed to clearly explain the rationale for any change, and to identify and quantify the benefits in relation to costs.

We recognise that AEMO are seeking to increase their visibility of demand side participation and distributed energy resources because aggregated demand changes can materially affect system operations. However, we do not consider that retailer-provided load forecasts are a suitable, or necessary, replacement for centralised forecasts. Other measures, such as independent assessments of forecast accuracy and increased participation by small generating units and larger market loads in the dispatch process are likely to be more effective at improving forecast accuracy.

The requirement for retailers to provide forecasting information does not naturally meet the stated objectives of the proposal. One objective is to increase AEMO's visibility of changes in demand driven by behind-the-meter products such distributed energy resources and demand management. One of the reasons for our objection to the proposal is that retailers are not the only providers of such products and services and this impacts their ability to provide accurate load forecasts. There are a growing number of third parties providing these services better placed to provide this information to AEMO regarding likely changes in demand in real time. In some cases, the incentives and signals for large loads to reduce their demand comes from the distributor. Clearly, large retailers have little control over some aspects of demand response or distributed energy resources used by their customers and are likely to find it difficult to provide forecasts that are sufficiently accurate for AEMO's needs.

Further, the AEMC has proposed that this obligation would only apply to large retailers. Based on the nature of product and service offerings available in this area already via retailers and third parties, this doesn't seem sensible as smaller retailers are also highly likely to provide behind-the-meter products and services as part of bespoke and niche service offerings.

AEMC have suggested that placing a financial penalty on retailers that is contingent on forecast accuracy enables the risk associated with forecast inaccuracy to be managed by those best placed to do so (i.e. retailers). While in general we support this allocation of risk in principle, we do not believe that it is appropriate to assign this risk entirely to retailers in this case. There will be unintended consequences and costs associated with such a measure as we outlined above. The proposed financial penalty for deviations from actual demand will place an additional unavoidable cost on retailers. Retailers could be charged for unpredictable changes in load that they are unable to manage, regardless of their level of investment and effort in developing accurate forecasts.

Further, differences in approaches taken by retailers could lead to forecast errors that are not easily explained or improved. Complexities in explaining forecast errors are likely as an assessment of each individual forecast will be required and overall forecast error may be exaggerated by the sum of forecast biases. As such, the use of aggregated retailer load forecasts is likely to lead to reduced transparency and increased complexity in understanding forecasts for participants.

Finally, as noted in our previous submission, this change would be a material change for retailers and present substantial costs in supporting new analysis and trading teams, in addition to required system changes. These costs would be set against benefits which are likely to be minimal and which could be achieved via alternative approaches. Therefore, we recommend that further work is required to articulate the data AEMO requires to improve load forecasting and options for obtaining or modelling the required information.

Ahead Markets

We are concerned that the assessment process for ahead markets is not orderly. It appears that the current approach is endeavouring to identify issues that would justify a particular change in the market, rather than analysing options to address identified issues.

We understand that AEMO will shortly be identifying key issues with the current market design that would justify the need to develop an ahead market framework. We understand that this information is likely to be available post the completion of this

Review. Therefore, we would be highly concerned if any recommendations were made in relation to the implementation of an ahead market prior to the release of this AEMO information.

An ahead market would be a substantial market change and should not be progressed without a rigorous consultation with industry that includes a thorough analysis of the issues and assessment of alternative solutions. Further, it would be remiss to consider such change to the market without full assessment in context for forthcoming market reforms such as the National Energy Guarantee (NEG) and Five-Minute Settlement rule change.

Facilitating Wholesale Demand Response

Following a recommendation from the Finkel Panel Review, the AEMC have outlined several possible mechanisms that could be introduced to facilitate demand response in the NEM. These proposals are similar to rule change requests considered by the AEMC in recent years.[1][2] During assessment of these rule change requests, AEMC concluded that there were no barriers to entry for demand response and that proposed changes were complex and likely to have costly and distortionary impacts on the market. While market circumstances may have changed such that a reassessment of the rules is warranted, we think it unlikely that factors contributing to complexity and cost of the proposed approaches will have changed.

Instead we suggest that under the proposed NEG, it should it possible to design the reliability obligation such that demand response contracts are eligible for inclusion, without introducing complex market changes into the NEM. We therefore recommend that consideration is given to how demand response contracts can work within the reliability obligation of the NEG.

If you would like to discuss this submission, please contact Georgina Snelling on 03 8628 1126 or Georgina.Snelling@energyaustralia.com.au.

Regards

Melinda Green
Industry Regulation Leader

[1] https://www.aemc.gov.au/rule-changes/multiple-trading-relationships
[2] https://www.aemc.gov.au/rule-changes/demand-management-embedded-generation-connection-i