



Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

***Reliability Frameworks Review – Directions Paper (EPR0060)***

Dear Mr Pierce

The Energy and Technical Regulation Division of the Department of the Premier and Cabinet, South Australia (Division) welcomes the opportunity to comment on the Directions Paper (the Paper) for the *Reliability Frameworks Review* published by the Australian Energy Market Commission (the Commission).

While the Division notes the progress the Commission has made on this review it is concerned the Paper is still seeking feedback and considering issues and options at a relatively high level. Noting that the Commission's timeline for this review is for a final report in mid-2018, it does not appear that there will be time for further development regarding the detail of the Commission's work, for example in a draft report prior to final, for stakeholders to consider further.

The Division also notes that consideration of a strategic reserve will be undertaken through assessment of the Australian Energy Market Operator's Reliability and Emergency Reserve Trader (RERT) rule change proposals. There are important work streams related to reliability, such as the National Energy Guarantee and the AEMO proposed RERT rule changes, that are being considered outside of this review. The Division expects the Commission to consider the interrelationship and implications of these related pieces of work as it progresses its work on the reliability topics that remain in its Reliability Frameworks Review.

***Forecasting and information provision***

The Division agrees with the Commission's view that in a tighter demand-supply balance with the changing characteristics of the system, differences between forecast and actual outcomes may have more significant consequences. The consequences of these differences were clearly demonstrated when, in combination with a few forced outages of thermal plant, in South Australia there was a system reliability event on 8 February 2017, where demand was higher than forecast and wind generation was lower than forecast.

The Division notes that the size of the differences between the actual and forecast values has not increased over time. While the Commission's analysis has determined that the deviation between actuals and forecasts has not become worse

overtime, it appears that forecasting is not improving, that is the deviations do not appear to be reducing.

The Division is therefore broadly supportive of measures that could be introduced to improve forecasting in the National Electricity Market, in particular in the medium-term PASA, short-term PASA and pre-dispatch timeframes.

The Division supports greater accountability for, and reporting on, the differences between forecast and actual values of AEMO's forecasting. The Division agrees that more transparency around trends and drivers in forecasts should help energy market participants to make more efficient decisions.

Annual reporting on AEMO's medium to short term forecasts is likely to provide greater transparency to participants without significant costs to participants and AEMO. This reporting could include, over the varying AEMO forecasting timeframes, description of methodologies and relevant changes, inputs used in forecasting, trend analysis on deviations between forecasts and actual demand outcomes and an assessment of the drivers behind any identified trends. This annual reporting should also include formal consultation with stakeholders in order to provide them with an opportunity to provide feedback to AEMO on opportunities to improve forecasting outcomes.

The Commission has provided some factors it considers relevant to determining the party best placed to undertake the analysis and reporting. The Division considers it likely that AEMO would be best placed to efficiently undertake such a process. AEMO has access to the data, the technical skills and systems necessary, incentive to identify sources of differences between actual and forecast values and an ability to address potential differences and explain what improvements, if any are underway.

The Division notes that there may be potential benefits from self-forecasting by semi-scheduled generation where these forecasts are more accurate than AEMO's Australian Solar Energy Forecasting Systems (ASEFS) and Australian Wind Energy Forecasting Systems (AWEFS). The Division considers it appropriate that the current work being undertaken by AEMO and ARENA on self-forecasting by utility-scale wind and solar projects on a voluntary basis be completed and assessed prior to any self-forecasting obligation is placed in the Rules.

In relation to retailers forecasting their own load, and submitting bids into AEMO's system to be dispatched, the Division notes that this is a substantial change to existing arrangements. This could provide more and/or better quality information to market participants and help facilitate demand response in the NEM. The Division would support more detailed assessment be undertaken of the costs associated with such a change and appropriate compliance mechanisms such as forecast deviation charges.

#### *Day-ahead markets*

In its submission to the Commission's Interim Report, the Division noted that day-ahead markets could drive improved reliability outcomes by locking uncontracted

market participants into financially binding schedules and by allowing the system operator to optimise the provision of reserves across the market. It might also offer benefits by helping facilitate the development of markets for system security services, where the dispatch of the services is dependent on unit commitment decisions being made.

The Division also noted that a day-ahead market could help facilitate wholesale demand response while avoiding some of the problems inherent in formalised demand response mechanisms.

In considering the objectives presented by the Commission the Division considers that a day-ahead market should provide market participants and AEMO with more and better quality information. Market participants could incorporate this information into their unit commitment and demand response decisions, increasing the efficiency of outcomes in the wholesale market. Improved information would also allow AEMO to better manage the system in relation to reliability and security outcomes. The Division considers it appropriate that the current generator self-commitment arrangements should remain.

As noted by the Commission, a multi-settlement system may reduce the number of reliability and security out-of-market interventions by AEMO as it would have better quality information to rely on before dispatch.

The Division supports the Commission considering targeted changes and improvements to the current market arrangements to achieve some of the proposed objectives of a day-ahead market as these may be implemented in a relatively shorter period. This however should not be at the exclusion of a detailed consideration of the potential benefits of a day-ahead market in the NEM.

The Paper also notes that AEMO is currently identifying the existing ahead features of the NEM that may require change and compiling the evidence of the deficiencies that it considers need to be addressed. The Division expects that upon receiving the additional work being undertaken by AEMO, the Commission prepare a more detailed assessment of a day-ahead market's ability to address these deficiencies.

#### *Wholesale demand response*

The Division recognises the potential for demand response to reduce peak demand and take pressure off prices. The Commission may wish to note that the South Australian Government's energy policies support the rewarding of customers for managing demand.

In its submission to the Commission's Interim Report, the Division expressed its support for continued examination of how opportunities for small customers could be enhanced and how the role of third party aggregators supported, either by lowering barriers to them becoming retailers or through being able to provide a wholesale demand response product.

The Division notes that the Commission has recognised there are potential obstacles that may stop demand response being fully facilitated in the NEM, that could be addressed through changes to the regulatory framework.

The Division agrees that unless a customer is willing to directly participate in the wholesale market or has a retailer that is willing to offer demand response, the customer is likely to find it difficult to engage in demand response, and that similar issues apply to smaller distributed energy resources accessing markets. There is likely therefore to be benefit in allowing multiple parties to engage a single consumer behind a connection point without it being contingent on the cooperation of the financially responsible market participant.

In relation to option 1, transferring the value of the wholesale demand response from the exiting Financially Responsible Market Participant (FRMP) to the aggregator, a key to the effectiveness of this option is the how the proposed baseline would be determined. The Division considers there is value in further developing this option for stakeholder consideration, building on the work undertaken previously for the demand response mechanism rule change and learnings from the AEMO/ARENA RERT trial.

The Commission's second option, transferring spot market responsibility for demand responsive load from the existing FRMP to an aggregator, could facilitate customer electing to have spot price pass through arrangements for certain loads or resources behind the connection point and potentially engaging a demand management service provider. However, there is likely to be obstacles to the success of this option, such as the cost of the customer establishing a second connection point and the technical feasibility of separately metering resources, particularly at the residential level.

Noting the differences of these two options, in particular the various potential implementation challenges and associated costs, the Division would support the Commission undertaking further detailed examination and comparison of the costs and benefits of each option, in order for stakeholders to make a better assessment of their relative long-term benefit to consumers.

The Division therefore supports the Commission further developing the two proposed options that could allow parties, for instance a specialist demand response aggregator, to engage a single consumer behind a connection point without that being contingent on the original FRMP.

The Division looks forward to the Commission's further consideration of these important matters over the remainder of the review.

Should you wish to discuss the submission in further detail, please contact Mr Mark Pedler, Principal Policy Officer, Energy and Technical Regulation Division on (08) 8226 5501.

Yours sincerely



**Vince Duffy**

Executive Director, Energy and Technical Regulation

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