

AEMO

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AEMO – Reliability Forecasting Methodology Issues Paper

Thank you for the opportunity to comment on the Reliability Forecasting Methodology Issues Paper.

The Energy Users Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined they employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

The EUAA supports the implementation of the Retailer Reliability Obligation. While we appreciate engagement undertaken by AEMO on this and other issues, it is unfortunate from consumers' perspectives that it is happening at such a pace that we are unable to fully evaluate the different components. This is not unique to AEMO as all energy market institutions are undertaking a significant reform agenda placing scarce consumer advocacy resources under substantial pressure.

This is the case with this Issues Paper, particularly when we are yet to see the draft AER Forecasting Best Practice Guideline. These two elements need to be viewed together for us to fully appreciate the issues, impacts and outcomes.

Given that the EUAA does not have the detailed technical knowledge to make substantive, in-depth comments on the proposed methodology, we look to consider the following criteria in our assessment of the proposed methodology:

- Does it have achievement of the 0.002% reliability standard in the most efficient way as a core building block?
- What do those who are specialists in the field, who can challenge the AEMO methodology, have to say?
- How does it compare with other forecasts?
- Does it balance costs and benefits and work to achieving the National Electricity Objective of the long-term interests of consumers?

Overall, we are looking to see if the outcome is “reasonable”, that is while there can be legitimate range of views, the approach is a “reasonable central case”¹.

¹ Note that this is different from the AEMO “Reasonable” principle it uses in its approach to calculating the reliability gap.

Specific Questions

Does it have achievement of the 0.002% reliability standard in the most efficient way as a core building block?

The role of the reliability standard was a key issue in the recent RERT rule change. One interpretation of the AEMO approach was that it sought to break the link between the standard and the procurement trigger which would have resulted in greater RERT being procured. Given this, even though the paper says it presents a methodology to forecast USE based on the reliability standard, we do not have the detailed technical knowledge to know if the methodology involves the least cost approach.

The evidence in the next point suggests it may not be, but we do not have the technical knowledge to confirm one way or the other. We illustrate this with a particular example.

At the 24th April Forecasting Reference Group meeting there was some discussion around AEMO's selection of the 2% and 5% "Loss of Loss Probability" measures for determining the reliability gap in different periods (see p. 24 of the Methodology Issues Paper). Attendees sought further information and AEMO prepared an Addendum that sought to clarify the methodology behind the selection of the 5% and 2% numbers.

Discussion at the next Forecasting Reference Group meeting on 9th May, eventually established that selection of these numbers was a value judgement from AEMO. We were expecting some form of economic analysis to justify the selection of the particular % numbers, not a simple "judgement" explanation. If this approach is indicative of AEMO's wider approach then the proposed methodology may not be a "reasonable central case".

What do those who are specialists in the field, who can challenge the AEMO methodology, say?

We have had the benefit of reviewing the ERM submission on this matter. It raises a number of concerns about the conservative nature of the proposed methodology e.g. consumption and demand forecasting, loss of load probability, demand side participation, exclusion of Com* new generation projects, generator forced outage rates and network outage assumptions.

We do have sympathy for those who are attempting to develop such forecasts given the rapidly changing market environment and would hope that AEMO is working to a broad consensus view, supported by robust analysis, to deliver plausible scenarios that don't lead to unnecessary costs for consumers.

How does it compare with other forecasts?

We have also seen the modelling undertaken by Ernst & Young for the Reliability Panel in 2018. This seems to suggest a lower level of USE than the AEMO forecasts. We understand that a major factor in the different outcomes are the assumptions around battery penetration and utilisation. AEMO is seeking two different consultant reports, from consultants who take different approaches, in its current process to hopefully get a better understanding of this issue.

Does it balance costs and benefits and work to achieving the National Electricity Objective of the long-term interests of consumers?

Given the above comments, it is difficult for the EUAA to say that the proposed methodology meets this criterion. The EUAA fully supports the existing reliability standard and accepts that achieving this standard will sometimes result in outages in the power system. To go beyond this standard will add significant, unnecessary costs to the system to achieve very marginal improvements in reliability.

Moving beyond this finely balanced trade-off between risks and costs is unacceptable. Therefore, we support achieving the current reliability standard and stand ready to assist AEMO in defending this important metric against outside influence. To assist this, it may be worthwhile AEMO engaging in a hypothetical scenario that identifies the consumer costs associated with achieving reliability beyond the current standard to provide context for policy makers.

Summary

On the basis of our current knowledge, we are unable to say that the proposed methodology will produce a “reasonable central case”. As highlighted in ERM’s submission, AEMO needs to provide significantly more justification to convince stakeholders that it is not taking an overly conservative view of its role in determining the reliability gap that will result in unnecessarily higher costs for consumers.

We welcome the recent AEMO engagement with consumer advocates to improve our understanding of AEMO’s work programme. We look forward to this progressing quickly to develop an engagement model that allows the EUAA to get a more comprehensive understanding of AEMO’s forecasting activities, particularly in the context of the RRO and ISP workstreams.

Yours sincerely



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