Final Determination - Interim Forecasting Best Practice Guidelines

Retailer Reliability Obligation

September 2019

AUSTRALIAN ENERGY REGULATOR

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1 Background

The Australian Energy Regulator (AER) is responsible for a number of roles under the Retailer Reliability Obligation (RRO) in the National Electricity Rules (Rules).

Given that the Australian Energy Market Operator's (AEMO) *reliability forecasts* will now be a critical input to the statutory requirements under the RRO, it is essential to ensure comprehensive engagement by AEMO with all interested stakeholders regarding the principles that underpin its proposed forecasting methods, assumptions, and inputs and that they take into account reasonable stakeholder expectations.

To ensure AEMO's *reliability forecasts* in the electricity *statement of opportunities* are prepared in accordance with forecasting best practices, the Interim *Forecasting Best Practice Guidelines* provide procedural guidance and are intended to promote stakeholders' confidence and transparency about AEMO's forecasting practices and processes.[1]

This document sets out our reasons underpinning the decision on the Interim *Forecasting Best Practice Guidelines* following the issues raised by stakeholder submissions through our consultation.

The AER received a total of 12 submissions from a range of stakeholders. These include retailers and generators, industry bodies, large market customers, government agencies, consumer organisations and large businesses.

[1] Rules, 4A.B.5 (b).

2 Issues raised in submissions to the draft Interim Forecasting Best Practice Guidelines

This section considers issues raised by stakeholders as part of the consultation process for the Draft Interim *Forecasting Best Practice Guidelines*.

Under the Rules, the AER is required to develop the Interim *Forecasting Best Practice Guidelines*.[2] In developing these Guidelines, the AER has sought both to give AEMO appropriate guidance and direction in developing the *Reliability Forecast Guidelines* and preparing its *reliability forecasts*, and to provide confidence to market participants concerning the quality and transparency of AEMO's *reliability forecasts* and related forecasting processes.

The Rules also provide for a number of transitional arrangements in relation to the guidelines and processes associated with the RRO, as set out in the table below.

Guideline	Purpose	Interim Guideline	Final Guideline
AER Reliability Instrument Guidelines	Assessment of a reliability instrument request issued by AEMO	31 July 2019	31 July 2020
AER Forecasting Best Practice Guidelines	Informs AEMO's ESOO forecasting.	30 September 2019	30 November 2020
AEMO Reliability Forecast Guidelines	Sets out AEMO's ESOO forecasting process	31 December 2019	28 February 2021
AER Contracts and Firmness Guidelines	AER process for assessing qualifying contracts, the firmness methodology that will be applied by a liable entity and the net contract position.	31 August 2019	31 December 2020
AER MLO Guideline	Processes associated with the MLO and requirements on MLO entities	31 August 2019	31 December 2020

Source: ESB, Final Rules Packages, 3 May 2019, 9.2 Transitional arrangements – guidelines, pp. 41-42.

These Interim *Forecasting Best Practice Guidelines* are for use in 2019 and 2020, until they are superseded by the final *Forecasting Best Practice Guidelines* that will be developed in accordance with the *Rules consultation procedures* by November 2020.

[2] Rules, 4A.B.5 (a).

2.1 Appeal mechanism for AEMO Reliability Forecast Guidelines

A number of stakeholders submitted that a dispute resolution mechanism should be available to permit an appeal to the AER to review the reasonableness of AEMO's forecasts and its *Reliability Forecast Guidelines*.[3]

The purpose of the *Forecasting Best Practice Guidelines* is to identify the principles that underpin forecasting best practices and to provide guidance for AEMO to develop their forecasting processes. These Guidelines do not describe how AEMO forecasting should be undertaken.

The Rules do not provide a dispute resolution mechanism for AEMO's *reliability forecasts,* its forecasting processes or decisions. The AER considers that providing a dispute resolution mechanism within these Guidelines would likely require the AER to judge technical aspects of AEMO *reliability forecasts*. The AER therefore considers provision of a disputed resolution mechanism, within the Guidelines, beyond their scope.

Instead, these Guidelines set out forecasting best practice principles and a consultation procedure, to which AEMO must have regard when developing its *Reliability Forecast Guidelines* and *reliability forecast* or *indicative reliability forecast*.

The AER considers the existing requirements in the Rules, and the guidance in the *Forecasting Best Practice Guidelines*, provide appropriate direction and clarity with respect to AEMO forecasting processes and procedures.[4]

Importantly, these Guidelines describe processes for AEMO to follow to establish forecasting methodologies, inputs and assumptions that result in forecasts that have been shaped according to best practice and have benefited from stakeholder input. The AER considers that where AEMO engages with stakeholders throughout the forecasting process, they will likely develop forecasts that meet the needs of industry and are more readily accepted by stakeholders. Therefore, the AER does not consider a dispute resolution mechanism to be necessary.

2.2 Technical details on AEMO forecasting processes and methodologies

A number of stakeholders submitted that the *Forecasting Best Practice Guidelines* should provide technical details of AEMO data inputs, forecasting processes, and methodologies, including:

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[3] AEC, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019; Energy Australia, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

[4] Note that as a transitional measure provided for under the Rules, 11.116.3(d)(1), AEMO is not required to prepare its reliability forecast or indicative reliability forecast in accordance with the Forecasting Best Practice Guidelines in 2019.

- the choice of input sources, methodologies, scenarios and sensitivities of AEMO forecasting processes and forecasting reporting[5]
- deciding the right "risk weighted" proportion of new generation in the forecast[6]
- detailing the thresholds used for the start and end dates of a *reliability gap* period.[7]

The purpose of the *Forecasting Best Practice Guidelines* is to identify forecasting best practices and to provide guidance for AEMO forecasting processes. These Guidelines do not describe how AEMO forecasting should be undertaken.[8] Instead, AEMO's *Reliability Forecast Guidelines* will contain the technical details of its forecasting processes and describe how it will implement the *Forecasting Best Practice Guidelines* in preparing a *reliability forecast* or *indicative reliability forecast*.

The purpose of the *Reliability Forecast Guidelines* is to describe how an AEMO *reliability forecast* is prepared, and how AEMO will implement the *Forecasting Best Practice Guidelines* when preparing a *reliability forecast* or *indicative reliability forecast*.[9]

Under the Rules, the scope of the *Reliability Forecast Guidelines* includes, among other matters, the following:[10]

- the consultation processes with relevant stakeholders in preparing a *reliability forecast* and *indicative reliability forecast*
- the process for updating a *reliability forecast*.

The AER considers that early and ongoing stakeholder engagement by AEMO will provide appropriate opportunities for stakeholders to comment and provide their expertise to the process of developing a *reliability forecast* or *indicative reliability forecast*.

2.3 Forecasting best practice consultation procedures

To provide confidence to stakeholders regarding AEMO's production of the electricity *statement of opportunities* and accompanying *reliability forecast* and *indicative reliability forecast*, the *Forecasting Best Practice Guidelines* introduce a new consultation requirement on AEMO: the Forecasting Best Practice Consultation Procedures. This bespoke consultation procedure is modelled on the *Rules consultation procedures* in the Rules (clause 8.9).

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5 ECA, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019; Small Business Ombudsman, Submission to Draft Interim Forecasting Best Practice Guidelines, June 2019; MEU, Submission to Draft Interim Forecasting Best Practice Guideline, June 2019; Mondo, Submission to Draft Interim Forecasting Best Practice Guideline, June 2019.

6 ECA, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

7 EUAA, Submission to AER's Draft Interim Forecasting Best Practice Guideline - June 2019.

8 ESB, Final Rules Packages, 3, May 2019, p. 12.

9 Rules, 4A.B.4 (a).

10 Rules, 4A.B.4 (b).

Stakeholders noted their in-principle support for AEMO using the Forecasting Best Practice Consultation Procedures to review periodically their forecasting methodologies and stakeholder engagement processes.[11]

EUAA submitted that more frequent review of AEMO forecasting processes is needed, at least in the first instance.[12] ERM Power and Snowy Hydro submitted that AEMO should undertake a review of their forecasting processes, using the Forecasting Best Practice Consultation Procedures, two years after its first application and on a four-yearly basis thereafter unless there is a material change in market circumstances that justify more frequent stakeholder consultation.[13]

We agree with the EUAA's suggested approach, and note that the Interim Guidelines will be superseded by Final *Forecasting Best Practice Guidelines* in late 2020.

Once a full consultation process has been completed for each aspect of forecasting, if a subsequent material change occurs, AEMO may then decide whether to repeat the consultation process. If there has been a material change to only one aspect of the forecasting methodology, AEMO may instead choose to re-run the process on that component alone.

2.4 Annual forecasting performance review and forecasting update

Stakeholders submitted that AEMO should be required to consult with industry on the format of this review, and, to ensure transparency around the performance and accuracy of AEMO's demand and supply forecasts, to do so in accordance with the Forecasting Best Practice Consultation Procedures.[14]

The Rules require AEMO to, no less than annually, prepare and publish on its website information related to the accuracy of its demand and supply forecasts, and any other inputs determined by AEMO to be material to its *reliability forecasts*.[15]

Consistent with this requirement, as noted in the Interim *Forecasting Best Practice Guidelines*, AEMO must analyse and publish the performance analysis of its *reliability forecasts*, which should include at minimum:

- an examination of the performance of each component;
- an explanation of any material deviation or trend in differences; and

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11 EUAA, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019; PIAC, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

12 EUAA, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

13 ERM Power, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019; Snowy Hydro, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

14 See submissions from Energy Australia, EUAA and ERM Power.

15 Rules, 3.13.3A (h).

- actions undertaken or to be undertaken to improve the accuracy of each component in the forecast.[16]

The Rules require that the *Reliability Forecast Guidelines* must include the process for preparing, reporting on and implementing its annual improvement program,[17] and the consultation processes with relevant stakeholders in preparing a *reliability forecast* and *indicative reliability forecast*.[18]

Except when making minor or administrative amendments to the *Reliability Forecast Guidelines*, AEMO must develop the *Reliability Forecast Guidelines* in accordance with the *Rules consultation procedures*.[19]

The AER considers the requirement in the Rules that AEMO comply with the *Rules consultation procedures* when developing or amending the *Reliability Forecast Guidelines* is well-suited to give stakeholders the opportunity to be involved in the relevant processes and to provide feedback to AEMO as it undertakes these tasks.

Stakeholders also called for AEMO to conduct monthly, rather than seasonal, comparison of previous demand forecasts.[20] Should stakeholders consider it necessary and appropriate, the AER encourages them to provide this feedback to AEMO when it is developing a *reliability forecast* or *indicative reliability forecast*.

The AER draws stakeholders' attention to the requirement in the Rules that where availability of information makes comparisons to older electricity *statement of opportunities* necessary, AEMO may include the electricity *statement of opportunities* for the preceding 24 months.[21]

2.5 Transparency and use of confidential information

A number of stakeholders raised matters relating to AEMO's use of confidential information and the transparency of its processes.

Energy Australia is of the view that all submissions made to AEMO should be published on its website.[22] We consider this a matter properly determined by AEMO in consultation with stakeholders.

Subject to genuine claims of confidentiality, the AER considers it best practice and in the interests of transparency that submissions to AEMO consultation processes are made publicly available.

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16 AER, Interim Forecasting Best Practice Guidelines, section 2.7.

17 Rules, 4A.B.4 (b)(9).

18 Rules, 4A.B.4 (b)(5).

19 Rules, 4A.B.4 (e).

20 ERM Power, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

21 Rules, 3.13(A) (h).

22 Energy Australia, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

ECA submitted that AEMO should disclose relevant information beyond the forecasting reference group, and that this information should be published in an accessible and appropriate format for general understanding.[23]

The AER considers it best practice and in the interests of transparency that such information be made available, and in an appropriate form, for all interested parties.

ECA also submitted that stakeholders should have the ability to appoint an expert to arbitrate potential disputes related to claims of confidentiality.[24] The AER considers this matter beyond the scope of the *Forecasting Best Practice Guidelines*. Stakeholders may wish to raise this issue with AEMO during the relevant consultation procedures as it develops the *Reliability Forecast Guidelines*.

Ergon Energy submitted that the AER, instead of AEMO, should determine the appropriate aggregation approach when dealing with confidential information.[25]

The AER considers AEMO is the appropriate organisation to develop the aggregation approach that balances stakeholders' reasonable expectations of transparency with protecting data that has been provided to AEMO in confidence.

The AER encourages stakeholders to provide feedback to AEMO if they have concerns about the representativeness of the information that is published by AEMO as part of its forecasting processes.

2.6 New AEMO reporting requirement

To provide confidence to stakeholders regarding AEMO's *reliability forecasts* and *indicative reliability forecasts*, the *Forecasting Best Practice Guidelines* introduced a new reporting requirement on AEMO.

When publishing each electricity *statement of opportunities,* independent of whether the *reliability forecast* or *indicative reliability forecast* indicates a gap, AEMO will report to the AER how it has, or has not, prepared the relevant forecasts in accordance with the *Forecasting Best Practice Guidelines*.

The AER considers that the information AEMO is to provide in this report will be a critical input to the AER assessment of any request to make a *reliability instrument*.

Energy Australia submitted that this report should be made publicly available.[26]

The AER agrees with this sentiment, and anticipates this report will be made publicly available.

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[23] ECA, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

[24] ECA, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

[25] Ergon Energy, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

[26] Energy Australia, Submission to AER's Draft Interim Forecasting Best Practice Guideline, June 2019.

3 Stakeholder submissions

During the consultation period, we received written submissions from the following stakeholders:

- Australian Energy Council (AEC)
- Australian Small Business and Family Enterprise Ombudsman
- Energy Consumers Australia (ECA)
- Energy Australia
- ENGIE
- Ergon Energy
- ERM Power
- Energy Users' Association of Australia (EUAA)
- Major Energy Users, Inc. (MEU)
- Mondo
- Public Interest Advocacy Centre (PIAC)
- Snowy Hydro