



EnergyAustralia

LIGHT THE WAY

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Dear Mr Adams,

AER Draft Interim Forecasting Best Practice Guideline, Retailer Reliability Obligation

We thank the AER for running the consultation and appreciate the limited time given to the AER (and AEMO) to develop several guidelines, including these, that will be critical to the operation of the Retailer Reliability Obligation (RRO).

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of installed generation capacity in the National Electricity Market (NEM).

We remain seriously concerned about the compressed timeline for implementation of the RRO which creates significant challenges for all participants and market bodies. Further, it has been challenging for the industry to get a holistic view of the entire set of guidelines and their interaction with the rules given the varying timelines specified in the rules for both interim and final guidelines, potentially meaning complex issues are overlooked or unresolved.

Under the RRO AEMO's forecasting requirements represent a shift in AEMO's role from forecasting as information provisions, to forecasting as a regulatory tool. To provide confidence to industry in AEMO's forecasts the AER is required to develop the Forecasting Best Practice Guidelines (the guidelines) which will guide AEMO's forecasts. Concerningly, as the RRO is slated to start on 1 July 2019 and AEMO is required to develop its 2019 Electricity Statement of Opportunities (ESOO) by August, for the first RRO reliability forecast these new guidelines will not be in place.

As AEMO remains exposed to the reliability consequences of underestimating risk, they are incentivised to forecast in a conservative manner. This could lead to an overestimation of risk and potentially an unnecessary and expensive compliance burden on industry. Ultimately these costs will be borne by consumers. The AER therefore has a very important role to play ensuring that AEMO's reliability forecasts are accurate, non-biased, transparent and are able to be critiqued by industry.

The AER approach should be hands on

It appears that the AER intends to take a relatively hands-off 'administrative' role in AEMO's ongoing forecasting processes. Even if AEMO follow the guidelines sufficiently they still have significant scope in what the final form of their Reliability Forecasting Guidelines and subsequent methodologies will take. The AER should have a role to play if there are unreconcilable differences between the views of AEMO and industry. To this end, there needs to be a mechanism where stakeholders can raise concerns and appeal to the AER to review AEMO's guidelines and methodologies. Once a reliability instrument has been requested by AEMO it is too late for concerns/disputes to be raised.

To limit the potential of this occurring the AER should endeavour to remain involved across all of AEMO's key forecasting processes to ensure industry views and concerns are being adequately addressed in real time.

Forecasts must be non-biased

AEMO should not seek to intentionally bias any forecasts to trigger a T-3 in order to retain the power to trigger a T-1 in the future. Conservatively calling a reliability gap at T-3 to allow it to be corrected at T-1 is not the intent of the RRO and will only add cost and complexity to the industry which will ultimately be borne by consumers. The AER has an ongoing important role to play in ensuring this does not occur.

Submission should be made public

The guidelines should stipulate that all submissions that AEMO receives to any of its consultation processes should be published on AEMO's website. Currently the guidelines¹ require AEMO to consider all valid submissions to both the consultation and draft reports and publish summaries of issues it reasonably considers to be material. As the materiality of issues raised is not an objective question and summaries can obscure key arguments submission should be made publicly available to promote transparency (unless confidential issues have been raised). This is consistent with broader industry best practice of publishing submissions.

New AEMO Reporting Requirement

The guidelines introduce a new reporting requirement on AEMO that when publishing each ES00, regardless 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 guidelines. We consider that this report should also be made publicly available and we would expect there to be no surprises to the AER from this report as they would have been involved in the AEMO consultation processes along the way.

Final Forecasting Best Practice Guidelines

¹ Page 20-21, AER consultation paper, <https://www.aer.gov.au/system/files/AER%20Draft%20Interim%20Forecasting%20Best%20Practice%20Guideline%20-%20For%20consultation%20-%20May%202019.pdf>

Under the final RRO rules the AER is required to produce the Final Forecasting Best Practice Guidelines by the 30th November 2020². It is appropriate to use the Final Interim Guidelines as a basis for developing final guidelines although we remain disappointed about the short implementation timeframes which mean it will be challenging for the final guidelines to be used for the 2020 ESOO.

We have similar concerns around the deadline of February 2021³ for AEMO to finalise their reliability forecast guidelines meaning that these will not be in place for the 2020 ESOO.

It is our view that both final guidelines should be in finished before the 2020 ESOO.

Annual forecast performance review

Under the RRO rules AEMO is required to at least annually prepare and publish on its website a forecasting accuracy review⁴. To ensure absolute transparency around the performance and accuracy of AEMO's demand and supply forecasts, AEMO should be required to consult with industry (in accordance with the guidelines) on the format of the annual forecast performance review.

As a member of the Australian Energy Council (AEC) EnergyAustralia is also supportive of the issues raised in their submission.

If you would like to discuss this submission, please contact Andrew Godfrey on 03 8628 1630 or by email andrew.godfrey@energyaustralia.com.au.

Regards

Sarah Ogilvie

Industry Regulation Leader

² RRO Final Rules, 11.116.3

³ RRO, Final Rules, 11.116.4

⁴ RRO, Final Rules, 3.13.3A (h)