

# SUBMISSION

**AER Guidelines To Make The ISP Actionable**  
**January 2020**

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## Introduction

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective. Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs.

The EUAA recognise the need to comprehensively evaluate the best pathways to a decentralized and decarbonised electricity system including the challenges that come with the retirement of thermal plant and the integration of new and emerging technologies. We also recognize the challenges from a changing climate and the growing impacts of extreme weather events on the electricity system.

Recent, unprecedented bushfire events have brought further focus on calls to expand network investment to increase the grid's "resilience". We would caution that this investment needs to be rigorously evaluated and should not be seen as a "silver bullet". Recent experience suggests bushfires of these unprecedented scale and severity can render two geographically separated transmission lines inoperable as easily as one line. In considering the question of grid "resilience", it should be noted that having multiple transmission lines simultaneously out of service does not necessarily result in the automatic collapse of the power system or USE for consumers.

All the evidence from network consumer engagements undertaken around the NEM as part of recent revenue reset discussions indicate satisfaction with the current level of reliability. In the absence of new information, in our experience consumers are understanding of supply interruptions caused by natural disasters. For example, we don't think consumers in North Queensland are willing to pay for the investment required for them to have no interruptions when a category 5 cyclone passes across the coast. Equally we don't think consumers in Victoria and NSW are willing to pay for the investment required for them to have no interruptions during the recent bushfires.

We support the development of the ISP and see it having a crucial role in facilitating this transition pathway at the most efficient cost to consumers, provided there is thorough, transparent and respectful engagement. This engagement must go beyond a "show and tell" approach where consumers are simply presented with an ISP that has been developed largely behind closed doors or in a way that makes it difficult for consumers to have an active role in shaping the outcome. It must also include an ongoing role in monitoring outcomes to ensure the benefits that were promised are being delivered.

The EUAA is focused on ensuring the development of the ISP follows rigorous process, achieves a high level of accountability and involves consumers, who ultimately foot the bill, as an integral part of an ongoing engagement process.

## General Comments

### Guidelines will have limited impact on 2020 ISP investments

We support the AER’s development of comprehensive guidelines on Cost Benefit Analysis and Forecasting Best Practice (ISP Guidelines). It is unfortunate that these guidelines are being developed in parallel with development of the 2020 ISP rather than before. In our companion submission to the ESB we disagree with the assumptions that the 2020 ISP has complied with the proposed Rules and AER Guidelines. As a result, we are concerned that we are in a situation where a number of projects flowing from both the 2018 and 2020 ISPs will have involved insufficient stakeholder engagement and reduced AER scrutiny increasing the risk to consumers of over-investment.

Therefore, we encourage the AEMO to be conscious of the principles and objectives of these guidelines as they engage in stakeholder consultation and consider submissions on the Draft 2020 ISP in a way that will help to build trust amongst stakeholders and confidence in the final plan. Unfortunately, at times there has been a reluctance for more transparency around its performance which leads to a dilution of trust amongst stakeholders.

### AEMO are naturally conservative

In a rapidly changing environment we appreciate that AEMO have a difficult role to play as both market operator and system planner, including its transmission planning role in Victoria. As the regulatory body responsible for “keeping the lights on” it is natural for them to adopt a very conservative approach to system strength and reliability which is reflected in its KPIs<sup>1</sup>.

Corporate KPI	Target	Stretch target
No preventable load shedding occurs	0	N/A
Meet operational energy system security and reliability requirements	100%	N/A

This is not meant to be a criticism of AEMO but an observation about the pressures placed on the market operator that would naturally drive a highly conservative approach and a risk adverse corporate culture. Therefore, the main theme of this submission is to argue that the ISP Guidelines, at least as they apply to development of the 2022 ISP, should be more prescriptive than discretionary for AEMO as we see this as reducing the risk of over-investment.

As discussed, this over investment risk is real because AEMO are compelled by their role as market operator to take what we believe to be an overly cautious approach and therefore may not be a truly independent party in assessing the optimal level of grid investment against the NEO. This has been demonstrated in the recent debates around a stricter reliability standard, extended RERT, development of a strategic reserves and greater network investment. While each of these may have merit, we do not believe there has been an appropriate level of meaningful consultation and transparency to accept on face value that these actions are in the interests of consumers.

Throughout this submission we provide some examples of AEMO’s recent approach in a number of areas to support our views. We also provide examples of where more prescription that might apply in the CBA Guidelines. We also propose that following completion of the 2022 ISP that AER undertakes a review of the effectiveness of the Guidelines which may lead to greater discretion being given to AEMO for the 2024 and subsequent ISPs.

<sup>1</sup> See <https://www.aemo.com.au/About-AEMO/Our-vision-mission-and-values>

## Role of the AER remains critical

Importantly we see the AER maintaining a key oversight and governance role consistent with its obligations under Part 3, Section 15 of the National Electricity Law in furthering the NEO as:

- Setting more prescriptive than discretionary ISP Guidelines for the 2022 ISP
- Monitoring, investigating and enforcing compliance with AEMO’s implementation of the ISP Guidelines – proactive monitoring throughout the ISP process
- Listening to stakeholder concerns as the 2022 ISP is being prepared
- Investigating breaches or possible breaches of the Guidelines within the disputes process
- Review the ISP Guidelines following completion of the 2022 ISP to review the prescription vs discretion balance in a similar two stage process as is currently being used to develop this Guideline:
  - Consultation paper inviting submissions
  - Publish draft guidelines
  - Submissions on draft guidelines
  - Final guidance published
- If disputes are limited to process, then AER has the right, if the capex of an actionable ISP Project is (say) > \$0.5b to undertake an independent assessment of such project as part of it fulfilling its contingent project role to ensure that project meets the NEO; in other words, the AER to retain the powers it currently has to undertake the type of analysis it is currently doing on the Energy Connect project t for all future actionable ISP projects; we see this role as consistent with its functions and powers under Section 15 of the NEL and the AER requirement to act in the long term interests of consumers (NEO).
- Ensuring that it has sufficient resources to undertake its role

## Why more prescription and less discretion?

We agree there is a trade-of between prescription (that provides more transparency and certainty to consumers on the way AEMO is conducting the ISP CBA) and flexibility (that allows AEMO to apply its judgement). Given this is the start of the actionable process, we favour more rather than less prescription. While we have gained confidence from our long experience in the AER RIT-T process, we have limited experience in the ISP process and therefore it is impossible to have a level of confidence around a largely untested process that gives significant discretion to AEMO.

Importantly, the ISP will replace the existing Project Specification Consultation Report (PSCR) that was previously undertaken by the sponsor TNSP. However, while the ISP is set to take on this role we are yet to see a similar level of stakeholder engagement and transparency from AEMO that we see from TNSP’s.

We advance three reasons for recommending a more prescriptive approach:

- (i) *The perception that AEMO’s forecasting is overly conservative, its level of transparency could be improved as could its level of focus on costs to consumers*

There is a widespread perception among consumer advocates that AEMO takes a very conservative approach to its forecasting (e.g. overestimates peak demand, underestimates available supply/reserves) which is understandable given their role as market operator with responsibility for “keeping the lights on.”

This perception extends to AEMO targeting what has been described as a “political” reliability standard that means the lights are never allowed go out under any market conditions. This contrasts to the existing, deeply consulted, independently assessed reliability standard.

This despite the fact that USE from generation and bulk transmission is only a very small portion of the total USE consumers face with the majority coming from issues manifesting in the distribution network.

Overall there is a perception that it does not focus on the most efficient cost outcome for consumers. We provide some examples in the Attachment.

(ii) *The current state of AEMO’s consumer engagement and the information asymmetry consumers face*

We have welcomed the improved level of stakeholder engagement AEMO has undertaken as part of the development of the 2020 ISP (along with its regular Forecasting Working Group activities) compared with the 2018 ISP. We are encouraged that AEMO recognizes there is a long way to go and we look forward to continuing to support them as they put in place new approaches. Unfortunately, there is a significant gap between their current position and the best practice we see with many electricity and gas networks revenue reset processes.

Given AEMO now have the role of essentially developing a whole of system PSCR and projects that end up in the ISP appear to have an air of inevitability about them we strongly recommend that AEMO continue to refine its approach to stakeholder engagement including dedicating additional specialist resources to the task.

Importantly, we observe that a more customer centric corporate culture is being developed by network service providers (and the energy industry in general). It has taken the energy industry a number of years to first acknowledge change was required and then to begin cultivating a more customer centric culture, most recently demonstrated through their participation in the recently established Energy Charter<sup>2</sup>. This is being well received by consumer advocates and is a positive step towards building understanding and trust.

With this in mind and with their proposed enhanced role under the auspices of the ISP, a positive step would be for AEMO to become a signatory to the Energy Charter which would be a clear demonstration of their commitment to better engagement, increased transparency and to building a strong focus on consumer outcomes.

We also suggest AEMO consider an approach similar to that described as part of the IAP2 spectrum<sup>3</sup>, which is a useful guide to the level and nature of engagement that ultimately leads to stakeholder acceptance and trust. When we consider the IAP2 spectrum, the consumer engagement undertaken as part of the 2020 ISP has predominately been to simply inform (the base level) with some level of consultation (second level) neither of which builds a desired level of stakeholder approval. Network resets can have a lot of ‘consult’ and ‘involve’ and in some cases ‘collaborate’.

We suggest AEMO strive to achieve the involve and collaborate levels of the spectrum if they desire broad based acceptance and support. This achieved, consumers would be more open to accept a higher level of discretion being granted to AEMO in future ISP’s.

<sup>2</sup> <https://www.theenergycharter.com.au>

<sup>3</sup> <https://www.iap2.org.au/resources/spectrum/>

The assumption in the Issues Paper that underlies the ISP Guidelines - that a high level of transparency and information provision is sufficient for effective consumer engagement – is understandable, but not our experience in practice<sup>4</sup>.

Not only is there a huge information asymmetry between AEMO and consumer advocates, these advocates lack the resources and the capability to be able to understand many of the detailed issues they are asked to comment on as part of AEMO’s stakeholder engagement.

For example, last October there was a major ISP engagement exercise through a three-hour workshop/ webinar with over 100 people in a range of AEMO offices and on teleconference. A 75-page slide pack was issued a couple of days prior. There were a series of complex and detailed topics where AEMO sought feedback on from attendees. AEMO has the benefit of a large staff and budget for consultants which allows it to allocate specialist resources working for weeks on a particular matter. Consumer advocates do not.

It is unreasonable to expect consumer advocates to provide informed responses on the basis of a slide pack distributed a couple of days prior containing high level information on a topic they may be, at best, only vaguely familiar with or understood.

AEMO did offer additional meetings to assist consumers to get a better understanding but consumer advocates simply do not have the resources to respond in any detail, particularly given the high demands on their time from other parts of the energy governance family.

*(iii) The limit on disputes to matters of process*

In a world where lots of information is being presented to consumer advocates that most cannot fully understand, and then layering on top a process that thinks even more information is a good thing, it is unfortunate that the only proposed ground or an appeal is ‘process’. We think the proposed disputes process does not allow appropriate consumer engagement and suggest some changes in our complementary submission on the ESB’s Draft ISP Rules.

**Concluding comments on a prescriptive approach**

While consumers have not have always agreed with the AER in its RIT-T process, we do have confidence that it serves as a reasonable barrier to over-investment. We are concerned that in the rush to make the ISP actionable we have proposals that are intended to speed up the process by stripping way some of the RIT-T safeguards and replace them with an increased role for AEMO.

We do not think that AEMO’s strong incentive to be overly conservative, its stage of development of consumer engagement and disputes limited to process lead us to conclude that greater prescription is required around how AEMO undertakes the 2022 ISP to give us confidence that the NEO is being properly addressed

We hesitate to agree with the AER’s view that (pp27-8):

“We recognise the value of AEMO using its judgement to choose the optimal development path, given its significant expertise in planning and forecasting.”

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<sup>4</sup> This is similar to the Hayne Royal Commission finding that lengthy product disclosure statements are not sufficient to ensure a consumer understands a financial product.

In that situation it is natural for energy users to look to more prescription on AEMO’s role until AEMO can prove that it is fully prepared to exercise the discretion it now seeks. Or put another way, the level of discretion afforded to AEMO is directly proportional to the level of transparency they provide and trust they build with stakeholders.

**Some examples of where more prescription is recommended**

- (i) In selecting the scenarios, AEMO is required to assess “staged” as well as “unstaged” development paths
- (ii) AEMO should assign probabilities to the scenarios it develops and then be required to provide a comprehensive justification for these probabilities and have these tested in a fully transparent and consultative process – this is the same as is currently the case under RIT-T guideline;

We recognise that it can seem arbitrary to select numerical probabilities. However, this is a well-recognised and widely used planning technique that many of our members use in their own businesses in their planning process. Its effectiveness depends on obtaining broad stakeholder support for the numbers chosen and that consumers have confidence around the reasoning that has gone into selection of the probabilities. Achieve this and consumers are more willing to accept the over/under investment risk that comes with that selection.

- (iii) AEMO would not have the flexibility to select an optimal development path that did not have the highest net benefit based on the probabilities decided after the consultation process in (ii);
- (iv) Requirement to undertake sensitivity testing for each development path and each scenario rather than leave that to AEMO’s discretion. This sensitivity analysis should not be limited to simply changing one variable at a time but should also consider the impact of changes in related variables at the same time
- (v) How HILP events are to be considered

We are particularly concerned about AEMO taking a very conservative approach to treatment of high impact low probability events with consequent impacts on over investment.

- (vi) There should be a process of post implementation review to assess each ISP. This could be in various stages parts e.g. 2022 ISP assesses the assumptions/forecasts on which the 2020 ISP was based; the actual benefits that have accrued to projects that are built would be assessed at say 5/10-year intervals
- (vii) Requiring AEMO to value market benefits of credible options using multiple scenarios (6.1.3)
- (viii) Providing explicit guidance on economic inputs and assumptions that the AER has jurisdiction over e.g. discount rates and value of customer reliability (p.22) including the specific values to be used and how they should be used in the CBA
- (ix) Require specific support for consumer engagement

The ESB Consultation Paper on the Draft Rules mentions AEMO’s decision to appoint an ISP Panel to help engage with stakeholders, particularly consumers. We would suggest more prescription around how the Panel is to operate and the resources that would be assigned to the Panel to ensure it facilitates high quality consumer engagement e.g.:

- Requirement to follow the AER’s Consumer Engagement Guideline
- Requirement to develop a stakeholder engagement plan with the ISP Panel and that the Panel will be required to present a report to the AER on their views on that Plan prior to engagement commencing on the 2022 ISP

The remainder of this submission responds to specific questions asked in the Issues Paper. We look forward to further discussions with the AER on the issues we have raised.

Sincerely,



Andrew Richards  
Chief Executive Officer  
22 January 2020

## Responses to specific questions

### 1. Do stakeholders agree with our proposed objective for the ISP guidelines? Section 3.1

The overall NEO objective should be more explicit. Given that we agree with the proposed objectives to provide certainty, transparency and accountability for AEMO, RiT-T proponents and stakeholders. In particular we support the use of “optimises” and “maximises” net economic benefits. We do not think that AEMO should have discretion to select development paths that do not accord with these objectives. This is driven by our perception of the conservative approach AEMO takes across a range of its forecasting and operational activities.

We do not have confidence that AEMO’s approach to high impact low probability (HILP) events appropriately considers the costs and benefits to consumers. We note that a majority of HILP events involve extreme weather or climactic events (e.g. tropical cyclones) where impacts on the energy system are unavoidable. While consumers are looking for the highest possible reliability they understand that in extreme cases, it is not possible. In these circumstances the key issue is the time to restore power.

Central to a successful ISP process will be for consumers to have a high level of confidence that the process is acting in their best interests. Unfortunately, despite increased effort by AEMO, this is something that our members are yet to have about the 2018 and 2020 ISPs and other AEMO reports such as the 2019 Electricity Statement of Opportunities.

While the Issues Papers discuss the risks of both over and under investment in transmission infrastructure, we think the risk of the former are much greater than the risks of the latter. As the Paper notes:

“... the completed or in-progress RiT-Ts associated with Group 1 and 2 projects in AEMO’s 2018 ISP have combined estimated capital costs ranging from approximately \$4.4–6.9 billion.”

or 21-33% of the existing TNSP asset base of \$21b. All of these costs will currently be paid by consumers.

We continually see evidence of the rapid technological change in distributed energy which has enabled it to expand so quickly. We see no reason to believe that the rate of change is going to slow significantly in the future. Therefore, we need to ensure as much as possible that any decisions on new investment in regulated transmission infrastructure are true ‘no regrets’ decisions that do not result in stranded or significantly underutilised assets that consumers will be paying for long after their economic life.

### 2. Do stakeholders agree with our proposed approach to flexibility and prescription for AEMO in the CBA guideline? Will this provide sufficient certainty and transparency to stakeholders? Section 4.1.2

See comments above.

### 3. What are stakeholders’ views on our proposed approach to AEMO’s development of inputs and assumptions? Are there additional principles we should consider? Section 4.2.1

We agree with AEMO having expertise in developing inputs and assumptions provided there is appropriate level of effective consultation in that development. Our experience in recent times is that while AEMO is improving its level of stakeholder engagement and level of transparency there is still considerable room for improvement.



4. What are stakeholders' views on our proposed approach to AEMO's development of reasonable scenarios? Are there additional principles we should consider? Section 4.2.2

We agree with giving AEMO discretion in the selection of scenarios and the three criteria the Issues Paper sets e.g. internally consistent input variables and parameters; reasonable range of plausible future market environments. However, as noted above we believe it is important that AEMO should assign probabilities to the scenarios it develops and then justify those probabilities in a fully transparent and consultative process.

5. What are stakeholders' views on our proposed CBA steps for the ISP? Are the amended steps from the RIT-T application guideline applicable to the ISP analysis? Are there particular areas where a worked example would be helpful in providing this guidance? Section 4.3

We agree with the AER prescribing the key steps for conducting a sound CBA being those adapted from the RIT-T Guideline. We think that worked examples are always helpful for consumers seeking to understand and engage in the ISP process.

6. What are stakeholders' views on our proposed approach to AEMO's selection of development paths for assessment? Are there additional principles we should consider? Section 4.3.1

The proposed criteria seem reasonable. What is unclear is how AEMO will set out development paths when the same project can occur in multiple development paths but at potentially different timetables on each path.

7. What are stakeholders' views of characterising the ISP counterfactual development path? Should replacement and small augmentation expenditure be included or excluded? Section 4.3.2

We agree in principle with the approach, but wonder how it will work in practice given the immense changes going on in the NEM. There can be several reasonable counterfactuals for each development path – so need to be clear the criteria for inclusion e.g. only include committed projects with a very clear definition of what “committed” means.

We think that the selection of the counterfactual development path(s) should include replacement and small augmentation expenditure as these could result in lower costs for consumers, could result in lower benefits from an ISP project and potentially a decision that there are no net benefits leading to deferring or deleting an ISP project.

8. What are stakeholders' views on quantifying costs and market benefits? What market benefits do stakeholders consider need to be estimated using probabilities? Section 4.3.3

We agree with the AER's comments around the inadequacy of least cost optimisation methodology to assess the appropriateness of network investments. Given that, we support AEMO assigning, and justifying, quantitative probabilities and support AEMO explicitly using, and justifying, probabilities to specific events. This is particularly required for HILP events.

We support the requirement for AEMO to:

- consult on its methodology for valuing expected costs and market benefits.
- Present the total costs, market benefits and net economic benefit for each development path under each reasonable scenario

We need to avoid the situation where an ISP project only generates a net benefit assuming it results in a certain level of new generation expenditure. This would involve consumers taking on the risk of specific new generation as part of its stranded asset risk. The total costs of network and generation has to result in a net benefit.

9. What are stakeholders' views on whether and how AEMO should conduct sensitivity analysis in its ISP process? Section 4.3.4

We agree with the proposed level of sensitivity analysis. What is important is that the assumptions to be used in the sensitivity analysis are subject to the same degree of transparency and discussion as the central case assumptions.

Consistent with our view on prescription over flexibility, we support a requirement to undertake sensitivity testing for each development path and each scenario rather than leave that to AEMO's discretion. This sensitivity analysis should not be limited to simply changing one variable at a time but should also consider the impact of changes in related variables at the same time.

We support the use of options analysis.

10. What are stakeholders' views on our proposal to provide AEMO with the flexibility to choose its decision making approach(es) to determine the optimal development path, subject to consultation and justification? Does this satisfy the draft rules requirements and sufficiently mitigate the risks of over-investment, under-investment, premature or overdue investment? Section 4.4

In principle the suggested approach has merit. However, this is where we have concerns around the overall AER principle of prescription vs flexibility given our concern about AEMO's conservative approach to risk. Given we do not always share AER's view that (pp27-8):

“We recognise the value of AEMO using its judgement to choose the optimal development path, given its significant expertise in planning and forecasting.”

We do not support the proposal as outlined. Does a disagreement with AEMO's decision making process qualify as a “process dispute”? What is the process of dispute if consumers disagree with the AEMO development path that involves a “more extreme or less likely scenario”? The issues paper says that (p.28):

“This would not require AEMO to assign probabilities to scenarios”

Which is the very reason we support assigning probabilities as part of the stakeholder engagement process. We are concerned that AEMO's overly conservative approach will lead to an over-investment bias.

11. What are stakeholders' views on our proposed approach to describing the identified need to be used by TNSPs in applying the RIT-T for an actionable ISP project? Section 4.5

We support the proposed approach.

12. What are stakeholders' views on how AEMO should take option value into account in the ISP, and TNSPs in RIT-Ts for actionable ISP projects? Section 5.1.2

We support the inclusion of option value as described in the RIT-T guideline.

13. What are stakeholders' views on our proposed guidance on non-network options in the CBA guideline? Section 5.2

We support the proposal to replicate the section of the RIT-T application guideline in the CBA guideline.

14. What are stakeholders' views on our proposed approach to RIT-T application guidance for actionable ISP projects and non-ISP projects? Section 6.1.1

We support the proposed approach for both actionable ISP projects and non-ISP projects.

15. What are stakeholders' views on what network development should be included in the base case of the RIT-T for actionable ISP and non-ISP projects? What are stakeholders' views on what generation (and other) development should be included in the base case of the RIT-T for actionable ISP and non-ISP projects? Section 6.1.2

We have concerns about the proposed approach:

- There seems to be a risk of double counting of benefits from related ISP projects
- Because some of those projects may not have been subject to their own RIT-T process there is a concern around the robustness of the costs and benefits estimates that are used

We are also concerned about “funding roads to nowhere” if there are many REZ’s concurrently being built. This can be addressed by limiting the number of REZ’s being built at any one time in each region - one has to be filled with committed generation prior to the next being committed.

16. What are stakeholders' views on the scenarios to be considered in RIT-Ts for actionable ISP projects? Would the 'feedback loop' help to overcome any misalignment between the ISP and RIT-T? Section 6.1.3

Consistent with our theme of “less discretion”, we favour valuing the market benefits of credible options using multiple scenarios. Yes, that will involve more modelling resources, but it also provide greater opportunity for consumer engagement.

Regarding the feedback loop, the guideline needs to ensure that the preferred option meets the identified need with the greatest net benefit under all scenarios. It is not clear whether this is how the AER envisages the feedback loop working.

17. What areas of the ISP do stakeholders require further transparency and/or consultation to engage effectively in the process? Section 6.2

To repeat an earlier theme – the forecasting best practice guideline must provide for extensive consultation at all stages.

18. What are stakeholders' views on our proposed guidance on dispute resolution in the RIT-T and ISP processes? What specific guidance on dispute resolution would stakeholders value? Section 7.1

In our earlier submission on the draft rules we supported use of the RIT-T disputes procedure. We have concerns about the proposed process limited to “process” matters and these are discussed in our ESB submission.

We think there should be a threshold test that allows a dispute on matters in addition to process – at least for the 2022 ISP process. The proposed AER review at the end of the 2022 ISP process may result in the EUAA supporting the current proposal.

19. *Do stakeholders agree with our proposed approach to compliance and enforcement of the rules and binding guidelines? Section 7.2*

Yes.

**Attachment – Concerns about the ability of AEMO to meet the NEO objective for the 2022 ISP.**

(i) 2019 ESOO assumptions on the return to service of Loy Yang 1 and Mortlake and availability of Torrens B

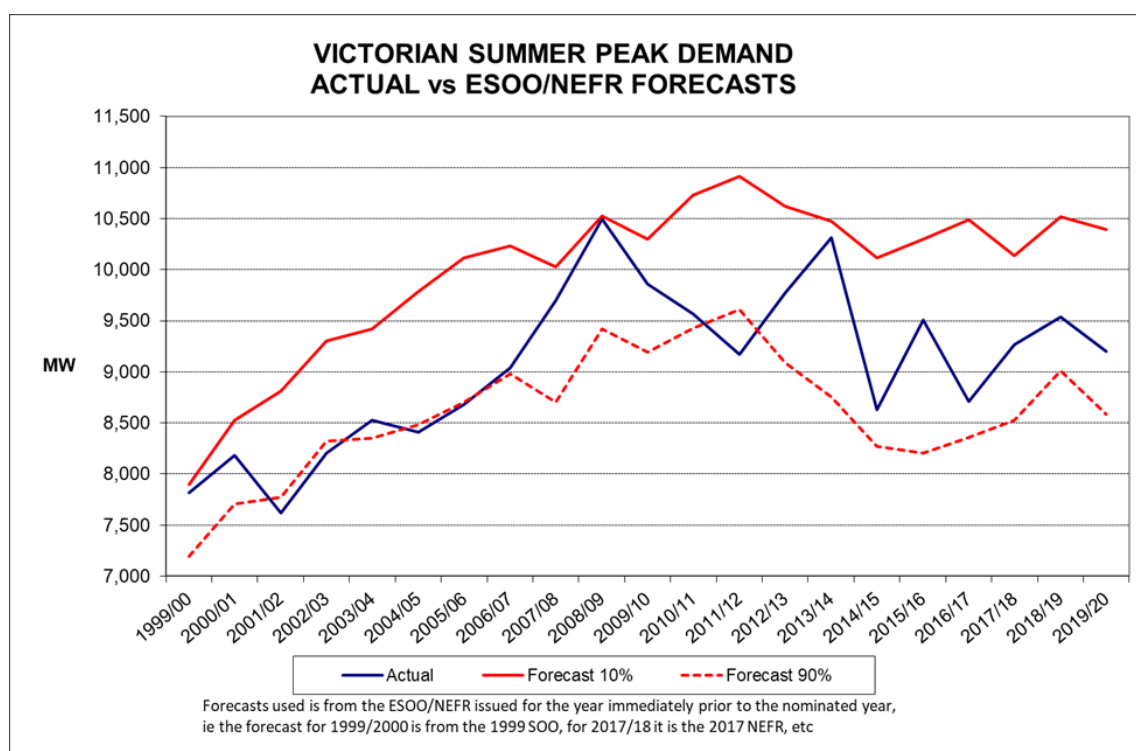
The critical 2019 ESOO concluded there would be a breach of the reliability standard in Victoria in 2019/20 and hence a level of RERT was required - was based on these probabilities of return to service assumptions.

Yet there was no consultation on the methodology used to arrive at the assumptions prior to the publication of the ESOO and no detail provided in the ESOO itself about how AEMO came to the assumptions they used. Only after the EUAA sought an explanation of the methodology was a brief and difficult to independently verify document on methodology provided around three weeks later.

(ii) AEMO’s record in forecasting P10 demand

The graph shows AEMO’s forecasting record over the last 20 years for P10 and P90 in Victoria.

- the 10% POE forecast has never been exceeded by adjusted actual demand in the history of the NEM.
- demand has even fallen short of the 90% POE demand forecast for a number of years
- until the 2011 ESOO the gap between the 10% and 90% forecasts was ~12%, since then this gap has increased to 18%



(iii) AEMO’s approach to RERT

AEMO’s approach to RERT through the AEMC review in 2018/19 and now with the current Victorian derogation, has consistently been very conservative and more interested in its view that the reliability

standard should be stricter than the current level and seemingly giving less weight to consumer preferences around reliability vs cost<sup>5</sup>.

(iv) AEMO’s approach to information disclosure and transparency

We illustrate these two examples.

(a) the current example of the ERM Power rule change on improving transparency and extending disclosure for MT PASA.

This rule change is generally strongly supported by consumers and generators. However, from the start of the process, while AEMO has supported some parts of the proposal, it has strongly opposed other parts aimed at greater transparency claiming the costs do not justify the benefits. As AEMO notes in its most recent submission on 9<sup>th</sup> January 2020, it argues that an extension of the USE forecast in MT PASA to year 3 is not supported because it<sup>6</sup>:

“...considers that some elements of the draft rule are not cost-effective from an implementation perspective.”

without providing any detail to back-up its claim that its alternative approach that it claims:

“...would deliver the benefits sought and provide better value for consumers.”

The Australian Energy Council in its submission of the same date notes<sup>7</sup>:

“The Energy Council supports increasing the frequency of demand forecast updates, and is surprised at AEMO’s resistance to doing so, given the regular availability of new information. While the National Electricity Rules allow AEMO to publish additional updated versions of the MTPASA when there are material changes, there is no compulsion for AEMO to do so. The Energy Council believes that this discretion should be removed, and AEMO should regularly assess its inputs. Should there be no material changes, no update to the MTPASA would be necessary. The overheads associated with conducting the assessment of material changes is expected to be low.”

So, it is unclear from AER’s proposed approach when AEMO is effectively going to be able to say to stakeholders that “we are not going to make this information available because we do not think the costs justify the benefits” and consumers have no recourse to challenge this decision. Is this when we raise a dispute with AER on “process”? And even if we do, what power does the AER have to direct AEMO to provide the transparency that consumers require?

<sup>5</sup> Confirmed by the most recent Reliability Panel review of the reliability settings and the CRG submission to the recent AER Rate of Return review. <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-instrument-2018/consultation>

<sup>6</sup> See [https://www.aemc.gov.au/sites/default/files/documents/rule\\_change\\_submissionerc0270\\_-\\_aemo\\_-\\_20200108.pdf](https://www.aemc.gov.au/sites/default/files/documents/rule_change_submissionerc0270_-_aemo_-_20200108.pdf)

<sup>7</sup> See [https://www.aemc.gov.au/sites/default/files/documents/rule\\_change\\_submissionerc0270\\_-\\_australian\\_energy\\_council\\_-\\_20200113.pdf](https://www.aemc.gov.au/sites/default/files/documents/rule_change_submissionerc0270_-_australian_energy_council_-_20200113.pdf)

(b) Development of the 2020 Gas ES00

Recent discussions in the Forecasting Reference Group on the development of gas demand forecasts resulted in discussions on the accuracy of previous Gas ES00 forecasts and the forecasting methodology. AEMO offered some high-level comments on what they thought were the reasons for the 2019 forecasts significantly underestimating actual 2019 demand. We asked for more detail but were told that AEMO does not have the resources to provide it prior to publication of the Gas ES00.

So, we have no way of discussing these matters and provide input into how the 2020 Gas ES00 forecast methodology might change to improve forecasting accuracy. We wonder what the purpose of the FRG is, if it is not to provide stakeholder comments on the forecasting methodology. How can we trust the forthcoming forecasts?