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**T-3 Reliability Instrument Application  
NSW January to March 2024**

Major Energy Users Inc (MEU) is pleased to provide its thoughts regarding the AEMO request to the AER for application of a T-3 Instrument to apply for the NSW region for the period January to March 2024.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

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The MEU notes that the application of a T-3 Reliability Instrument from AEMO for the NSW region in quarter 1 of 2024 is based on the changes made to the National Electricity Law and Rules regarding the Retailer Reliability Obligation (RRO) where the reliability trigger for the RRO has been reduced from the Reliability Standard of 0.002% to the Interim Reliability Measure (IRM) of 0.0006%. AEMO forecasts that the IRM in NSW for Q1 2024 will be exceeded by 154 MW.

The MEU does not consider that the AER should issue a T-3 instrument for the NSW region for the first quarter of 2024 (ie from January to March 2024). The reasons for the MEU view are based on:

- A general view that AEMO has taken a very conservative approach to assessing the difference between forecast supply and forecast demand in the 2020 Electricity Statement of Opportunities (ESoO), resulting in an overstatement of the potential for unserved energy (USE) in NSW Q1 2024.
- AEMO did not incorporate into the 2020 ESoO planned and committed transmission network augmentations that would result in less USE in NSW in Q1 2024
- There have been significant changes in the market since the development of the 2020 ESoO that would lead to a reduction in USE in NSW Q1 2024 yet AEMO has not incorporated these into its analysis for seeking a T-3 instrument.

When all of these issues are taken into account, it is clear that there is no real expectation that in Q1 2024, NSW faces a forecast shortage of supply yet the MEU is very concerned that as a result of the declaration of T-3 instrument, unnecessary investment will be implemented triggered by retailer concerns of the instrument being declared, leading to an unnecessary cost that ultimately will be passed onto consumers.

### **AEMO is overly conservative**

As a member of the the AEMO Forecasting Reference Group (FRG), the MEU representative has made numerous observations to AEMO that its approach to forecasting embeds considerable conservatism. That this is the case is demonstrated by the high frequency by which AEMO historical demand side forecasts have not eventuated.

A specific example of this excessive conservatism has been the forecasting of demand side participation where AEMO has consistently underestimated the amount of demand side responsiveness (DSR) that occurs with high spot prices, such that when high spot prices eventuate, AEMO has discounted the amounts of DSR that have been provided, including in NSW. As DSR is most needed when the supply/demand balance is tight (ie times when high prices occur), underestimating the DSR at such times leads to a higher expectation of USE being incurred.

During FRG workshops examining the amounts of DSR that will probably be available, ERM Power provided specific examples of where the AEMO forecasts did

not reflect the actual amounts of DSR that were provided when most needed. Unfortunately, AEMO has elected not to increase the forecasts of DSR in its ESoO to reflect the actuality of DSR. The MEU notes that this is despite AEMO noting in the T-3 application that the materiality of DSR is high, so any underestimate of DSR would lead to a higher expectation of USE.

### **2020 ESoO excludes known transmission investments**

A critical element of planned transmission infrastructure has been excluded from the 2020 ESoO.

As part of the approved VNI Minor interconnector project (a project incorporated into the 2020 ISP) and already being implemented by AEMO (as the Victorian TNSP) and TransGrid, the 2020 ESoO includes the VNI Minor project investments in Victoria, but excludes the investments required in NSW (and being implemented by TransGrid). The MEU understands that the Victorian component of VNI Minor is due for completion in 2022 but the NSW component is due for completion by TransGrid late in 2021, providing the benefits of the project for Q1 2024. This exclusion from the ESoO is incomprehensible.

When both the Victorian and NSW parts of VNI Minor are completed, this transmission augmentation will increase the expected available supply for NSW by some 170 MW, which exceeds the amount of USE forecast in NSW above the IRM for Q1 2024.

The MEU also notes that the 2020 TransGrid Transmission Annual Planning Report (TAPR) also includes a number of other projects which will further increase the availability of supply in NSW.

### **Best Practice Forecasting**

The MEU understands the challenges inherent in forecasting, and this is why decisions which are likely to cause costs should be based on the most recent data possible in order to avoid unnecessary costs being incurred by Participants and ultimately by consumers.

Since the 2020 ESoO was developed and released, there have been a number of significant changes to the market, such that the inclusion of these changes would remove the likelihood of the IRM being exceeded in NSW in 2024. These include

- The commitment by the NSW government to fund some 170 MW of dispatchable capacity under its Emerging Energy Program and that subsequently some 220 MW will receive funding. In the 2020 ESoO AEMO acknowledges that this was the case but states that its modelling was completed before this announcement and so this increase in supply has been excluded when AEMO applied for the T-3 instrument. Inclusion of this increased supply would more than address the reported shortfall in supply for NSW Q1 2024

- Since the 2020 ESoO was completed, AEMO advises in its “Generation Information” that more committed generation is to be provided than was assumed for the 2020 ESoO. AEMO acknowledges this in the application and that the inclusion of this would reduce the forecast 2024 USE significantly.
- The NSW government has legislated its Electricity Infrastructure Roadmap which will lead to significant increases in supply in NSW before 2024 as well as reduce the amounts of congestion in the transmission network.

With such significant changes occurring in the NSW market, the MEU considers that AEMO, should have at least updated the 2020 ESoO as such an update would have eliminated the forecast USE triggering the T-3 Reliability Instrument.

## Conclusions

The MEU points out that the decision to implement a 3 year forecast (ie T-3) of USE was intended to provide retailers (and others exposed to the RRO) sufficient time to implement actions to ensure they will not be exposed to RRO costs in year T. The implications of the AEMO application is that it could trigger unnecessary investment when an updated ESoO would clearly show that the amounts of USE forecast for 2024 will be less than the IRM.

The MEU considers that AEMO has failed to provide an appropriate forecast of the likely supply for NSW in quarter 1 of 2024, and despite very clear evidence that an update should be made before issuing a T-3 application, has neglected to do so. An update would verify (or not) whether forecast USE will exceed the IRM. The MEU is strongly of the view that AEMO has failed in duty to consumers by not updating the ESoO.

The MEU considers that the AER must as a matter of urgency seek clarification from AEMO as to the forecast of USE for NSW in Q1 when it has taken into account the many changes in the market since AEMO completed its modelling for the 2020 ESoO.

The MEU is aware that ERM Power is preparing a more detailed analysis of the shortcomings of the AEMO approach to this Reliability Instrument application and supports the ERM Power analysis and conclusions.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at [davidheadberry@bigpond.com](mailto:davidheadberry@bigpond.com) or 0417 397 056

Yours faithfully



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