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Reliability Forecast Guidelines Issues Paper

Major Energy Users Inc (MEU) is pleased to provide its thoughts in response Reliability Forecast Guidelines Issues Paper. The MEU apologises for the late response but understands that AWEMO has agreed for other consumer advocates to provide a submission by 17 December 2020

The MEU was established by very large energy using firms to represent their interests in the energy markets. As most of the members are located regionally and are the largest employers in these regions, the MEU is required by its members to ensure that its views also accommodate the needs of their suppliers and employees in those regional areas. 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 (GMRG, ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU points out that the views in this submission are those of end users of electricity and no attempt has been made to provide views that might be in the interests of other stakeholder groups.

The members of the MEU are very concerned about the high prices extant in the supply of electricity and about the reliability of this supply as both are essential elements to ensure that each member can continue to derive benefits from the very large investments they have made in their facilities and which have a high dependence on the supply of reliable but low cost electricity.

The MEU is a member of the Forecasting Reference Group (FRG) and understands the importance of accurate forecasting and the challenges faced by AEMO as it carries out its tasks in this aspect of its role.

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As an overarching observation, the MEU is very concerned that AEMO implements an excessively conservative approach to its forecasting and this point has been made by the MEU representative to the FRG on numerous occasions. The MEU, as an advocate on behalf of consumers recognises that while some conservatism in forecasts is a positive (on the basis that the detriment to consumers from an under-forecast is potentially greater than the detriment from an over-forecast), excessive over-forecasting causes more detriment to consumers than is necessary. The MEU points out that the National Electricity Objective (NEO) requires only **efficient** investment in the electricity market and over-forecasting results in inefficient investment.

The MEU points out that over-forecasting by AEMO is an advantage to AEMO in its role as the market operator and its reputation if “the lights go out” but the costs of over-forecasting are borne by consumers. The MEU observes that consumers effectively fund investments that are triggered by the Retailer Reliability Obligation (RRO) and if excessively conservative forecasts are provided by AEMO, then the RRO can be unnecessarily triggered with the retailers initiating actions to mitigate their risks, the costs of which are passed onto consumers.

The MEU points to the recent AEMO decision to request a T-3 RRO trigger in NSW for quarter 1 of 2024. A less conservative and updated forecast would not have led to this trigger being sought, especially when it is considered that there are a number of reasons that the trigger should not have been “pulled”. The MEU wrote to the AER expressing its concern about this unnecessary action in the following terms:

“The MEU does not consider that ... a T-3 instrument for the NSW region for the first quarter of 2024 (ie from January to March 2024) [should be made]. 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.”

The MEU provided the AER with examples where AEMO had failed to include in an update to the ESoO which should have incorporated:

- Known transmission investments that were scheduled for completion prior to 2024
- The NSW government commitment to fund 170 MW of new capacity under its Emerging Energy Program but this was excluded from AEMO modelling in the ESoO

- Additional new generation was available for inclusion in its Generation Information” but was excluded
- The NSW Electricity Infrastructure Roadmap was legislated but its impacts were excluded.

To the MEU, this provides a very good example where it considers that AEMO should have taken a less conservative position and highlights the shortcomings in the current forecasting approach where known investments occur after the release of the ESoO but will have a significant impact, potentially initiating unnecessary investments.

With this in mind, the MEU considers that the guidelines must require AEMO to update forecasts more frequently than annually, especially where these updated forecasts would otherwise defer or eliminate the potential for any investments.

The MEU also notes the approach to consultation (referred to as “Industry Engagement”). While the MEU accepts that AEMO is attempting to improve its relationships with stakeholders, it is important to recognise that consumers are the focus of the NEO and therefore AEMO needs to ensure that it gets the maximum value from the consumer cohort in its deliberations, especially moving from the “inform” element of the IAP2 spectrum to aspects to the right of “inform”. This requires AEMO to make significant steps towards getting better consumer engagement and to enable those consumer representatives to provide informed input to those deliberations.

The MEU is aware that ERM Power has provided a more detailed response to this Issues Paper. The MEU has had discussions about AEMO forecasting with ERM both in FRGs and in other forums. The MEU therefore supports the more detailed observations ERM has made in its submission to this Issues Paper.

We apologise for the late submission and appreciate the additional day to provide this response.

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

Yours faithfully



David Headberry
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