



31 October 2019

Australian Energy Market Operator
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Melbourne Vic 3000

Sent by: email to energy.forecasting@aemo.com.au

Interim Reliability Forecast Guidelines Issues Paper

Major Energy Users Inc (MEU) is pleased to provide its thoughts in response to the Issues Paper released by AEMO to discuss the Reliability Forecasting methodology to be used to establish the Retailer Reliability Obligation (RRO) reliability gaps.

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 is a member of the AEMO Forecasting Reference Group and as such has a reasonable understanding of the issues facing AEMO in the establishment of its interim reliability forecasting guidelines. The MEU points out that with the implementation of the Retailer Reliability Obligation (RRO), forecasting has moved from being a source of information for the National Electricity Market to one where there will be considerable financial investment needed to limit exposure to the considerable financial risks from the RRO. The outcome of these risks is that consumers will incur additional costs both indirectly through retailer actions to meet the RRO and directly through the use of the RERT scheme which will be used if there is a shortfall of supply.

As an overarching observation, the MEU is very concerned about the high degree of conservatism that AEMO builds into its forecasting. Whilst some level of

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conservatism is needed to an increasing risk of loss of supply, too much conservatism leads to unnecessary investment where ultimately the costs of which will be borne by consumers driven by the introduction of the RRO. As the MEU has stated previously, an assessment of this conservatism can only come from the review of past forecasts compared to actual outcomes; this review is a critical element to inform on what changes might be required to the forecasting process to improve the quality of the forecasting process.

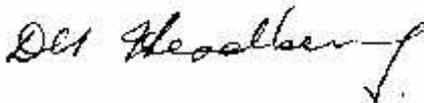
The MEU reiterates its concern that AEMO needs to be careful that its approach to forecasting does not lead to inefficient investment (to address potential shortfalls in reliable supply) or lead to specific technology outcomes through unnecessarily increasing the amounts of time that are set to be subject to the reliability gap. For example, the MEU notes that where a month without a reliability gap lies between two months where a reliability gap applies, AEMO intends to include the middle month as being subject to the RRO. The MEU sees that the unnecessary inclusion of the additional month could lead to a retailer seeking a different solution to its risk exposure than by addressing the times where the shortfalls are identified.

Due to the excessive amount of stakeholder consultation in recent times, the MEU has been limited in the degree to which it can commit resources to assessing the interim guidelines. With this in mind, the MEU has carried out considerable dialogue with other stakeholders about this topic. This dialogue has had the effect of both acquiring information and providing input into other stakeholder submissions.

With this in mind, the MEU considers that the submission provided to AEMO by ERM Power on this topic, provides a good summation of the views and concerns that the MEU has with regard to the Interim Reliability Forecasting guidelines. Specifically, the MEU points out that its concerns noted above are more clearly addressed in the ERM submission.

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

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style and is positioned above the printed name.

David Headberry
Public Officer