

Australian Energy Regulator

Submitted by email to RRO@aer.gov.au

19 June 2019

### **For Consultation – Draft Interim Forecasting Best Practice Guidelines**

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Draft Interim Forecasting Best Practice Guidelines for the Retailer Reliability Obligation (RRO).

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The Australian Energy Market Operator (AEMO) will be responsible for determining the conditions that lead to the RRO being called, the result of which will unavoidably be a very expensive compliance exercise for the industry with all additional costs incurred – to achieve RRO compliance – necessarily having to be passed onto customers. It is therefore imperative that the conditions upon which it is called represent a true excursion from the Reliability Standard. The AEC notes however that forecasting is extremely complex and inherently requires considerable expertise and judgement from AEMO. And, as some of the data must remain confidential it cannot be entirely transparent. Further, as AEMO is exposed to the reliability consequences of underestimating risk, but not the costs of overestimating risk, there is always a danger of bias in these complex, and sometimes necessarily confidential, judgements. Accordingly, the Energy Council considers the Australian Energy Regulator (AER) has a very important role to play in overseeing the AEMO process, in order to mitigate the possibility of adverse customer impacts – higher prices – as a result of the mechanism being triggered unnecessarily.

The Energy Council has no specific comments on the proposed AER promulgated procedures listed in the appendices. The steps described, and the requirement for the re-consultation of AEMO's forecasting guidelines upon significant change but at least every four years broadly represent good regulatory practices. However we have the following general comments which we think will improve the overall approach:

- The AER appears to ascribe to itself a very limited administrative role, simply laying out the terms by which AEMO must prepare its Forecasting Guidelines. Even where AEMO follows these procedures well, ultimately the Forecasting Guidelines belong to AEMO and so its final form will be their choice. Much as they take stakeholders' views fairly into account, there will be forecasting approaches and assumptions to which informed minds may reasonably disagree. The Energy Council considers the AER has been given an oversight role exactly for this purpose: to resolve such disagreements. Accordingly, there should be a mechanism where stakeholders can appeal for an AER review into the reasonableness of all - or parts - of AEMO's Forecasting Guidelines.
- There is a difficult trade-off between transparency and flexibility. Some of the features of the AER's proposed consultation procedures, particularly the long length of consultation time (22 weeks), are well-intentioned but run the risk of backfiring in the following ways:
  - Where AEMO becomes aware of the possibility for incremental improvements in a forecasting technique, it will be discouraged from progressing it knowing the very substantial administrative task in re-starting a consultation. More likely it will defer the improvement until the next four-year scheduled review.

- With AEMO knowing the administrative burden of changing the Guidelines as required by these procedures, an incentive is created to place as little detail in the Guidelines as possible, which would leave AEMO the discretion to adjust key matters without any consultation. This would in effect achieve the reverse of the desired outcome.

The Energy Council's considers that, if the AER provided the option for an appeal mechanism on the Forecasting Guideline, then stakeholders may be willing to accept a less exacting consultation process for changing them. This would then reduce the risk of counter-productive outcomes as described above.

Any questions about our submission should be addressed to me by email to [ben.skinner@energycouncil.com.au](mailto:ben.skinner@energycouncil.com.au) by telephone on (03) 9205 3116.

Yours sincerely,



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