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17 January 2020

Mr Mark Feather
General Manager, Policy & Performance
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By e-mail: ISPguidelines@aer.gov.au

**ISP Guidelines Issues Paper**

Dear Mr Feather,

Energy Consumers Australia appreciates the opportunity to comment on the Australian Energy Regulator's (AER) *Guidelines to make the Integrated System Plan actionable Issues Paper* (the Paper). We have taken a close interest in the development of the first and second Integrated System Plans (ISP) and have provided submissions to the Energy Security Board (ESB) consultation on this matter.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council (the Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

The Paper seeks our view in relation to two Guidelines the AER will be required to make under the proposed actionable ISP rules. The first of these, the Forecasting Best Practice Guideline, is similar to a guideline the AER is required to make under the Retailer Reliability Obligation rules (Forecasting Guideline). The second is a cost-benefit analysis guideline (CBA Guideline) to enable the ISP to perform some of the stages of the existing Regulatory Investment Test – Transmission (RIT-T).

On Tuesday 14 January, Richard Khoe kindly made himself available for a presentation to and discussion with sixteen consumer advocates on the Issues Paper and the ESB's Draft Rules. The advocates came from organisations based in every State in the National Electricity Market (NEM). The organisations represented welfare groups, councils of social services, the aged, agriculture and industry.

The meeting did not seek to reach a conclusion on the questions in the Paper, but it did reach general agreement on three points:

- Consumers acknowledge there is a need to balance the desire to streamline the project identification and approval process (ISP plus RIT-T) without removing the essential controls in the process. We want a streamlined process not a weaker process.
- Consumers rely on the AER to 'stand in their shoes' and represent their interests. AEMO decisions which result in consumers paying for those decisions either directly or through retail bills should be subject to as much scrutiny as a network decision would be.
- The inputs, assumptions and scenario construction are the really critical components and we want the AER to recognise that this guideline is really important. We don't accept the proposition that AEMO are 'the experts in forecasting.' Past consumer experience as a result

of this approach has been highlighted in the ACCC Retail Electricity Price Inquiry and ACCC recommendations about asset write-downs.

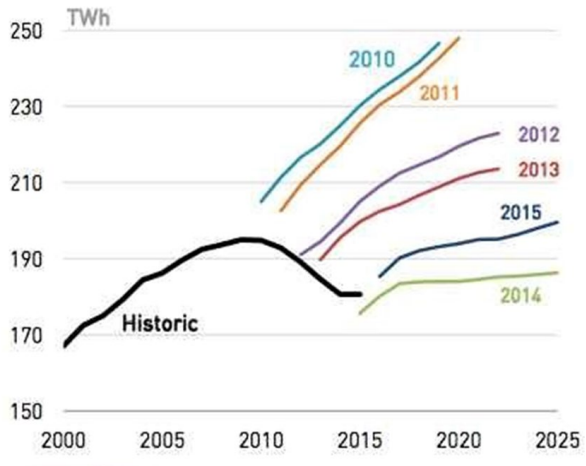
Energy Consumers Australia echoes these three points in this submission. In particular, we acknowledge and support the elimination of wasteful duplication between the development of the ISP and the conduct of the RIT-T for certain projects identified in the plan as 'actionable.' We also note the importance of the inputs and assumptions for both the forecasting process and the cost benefit analysis.

The remainder of this submission contains three sections. The first two provide some general comments about the Forecasting Guideline and the CBA Guideline respectively. The last provides responses to questions in the Paper.

*The Forecasting Best Practice Guideline*

In June we made a submission to the AER on its the *Draft Interim Forecasting Best Practice Guideline: Retailer Reliability Obligation* (the Paper) of May 2019. In that submission we outlined that a key framing for our work is what consumers are telling us about energy services and priorities, in particular through our Energy Consumer Sentiment Survey. These survey responses demonstrate that consumers have significantly higher satisfaction with the reliability of electricity services than they do with price.

We repeat the observation made in that submission that AEMO's forecasts have significant impacts on consumers, especially the price they pay for electricity. We also repeat consumers' ongoing concern about AEMO's forecasting capability based on the forecasting performance that resulted in the 'hedgehog' diagram below.




The Forecasting Guideline needs to do more than discuss how AEMO needs to publish its approaches or indeed to 'consult.' It needs to explicitly deal with the need for AEMO to respond transparently to any submissions to explain in the written decision whether they have incorporated the proposed change and if so, how. There also needs to be a facility for stakeholders to appeal to the AER about the proposed response.

*CBA Guideline*

Cost Benefit Analysis is a tool to assist decision makers, not to replace decision making. The Guideline needs to reinforce that position and note that investment options can be expected to have

negative net benefits under some scenarios. In general, ECA believes that network options should be rated on a least regret basis as well as on maximum return

*Response to questions*

1 Do stakeholders agree with our proposed objective for the ISP guidelines?

The Paper proposes:

> The objective of the ISP guidelines is to provide certainty, transparency and accountability for AEMO, RIT–T proponents and stakeholders to promote:
>
> - ISPs that identify the optimal development path that optimises the net economic benefit to all those who produce, consume and transport electricity in the relevant market
> - RIT–Ts that identify the credible option that maximises the net economic benefit to all those who produce, consume and transport electricity in the relevant market
> - effective stakeholder consultation and engagement in the ISP and RIT–T processes.

We do not agree that the objective is only to 'optimise the net economic benefit'. We believe the objective needs to balance economic benefit with perceived risk (regret level) of each option.

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?

We do agree with the proposed approach, however, we would prefer it if the approach specifically included a 'least regret' analysis together with optimising benefits.

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

The Paper proposes four principles; transparency, consistency, reputable independent sources and sensitivity analysis. As expressed above there needs to be an early opportunity for stakeholders to appeal to the AER if they feel these principles are not being applied. We note our view that the RRO procedures focussed too much on the consultation procedures and not enough on the interactive nature of developing the inputs.

In particular, some of the inputs vary across scenarios, and the intention of the scenarios is to reflect end states not just pathways. In particular if a scenario is modelling the achievement of a net zero carbon energy system it is important that the inputs are tested to ensure that in aggregate they achieve the scenario objective.

There is no guarantee that getting inputs from reputable independent sources means that they are reliable estimates. Indeed, there may well be benefit in AEMO further investing in its own capability for forecasting some of these inputs. A specific example is electric vehicle take-up. Just like solar PV and batteries, it is not just how many EVs are charging, but where (and when). AEMO is better placed than anyone else to combine connection point metering data with EV registration data to build a model that relates EV penetration to socio-economic and demographic characteristics.

Forecasters also need to reflect on how effective the past is as a predicter of the future. Since we know climate is changing and that each year has been hotter than the last, the weather pattern of the last ten years isn't a good indicator of the future. The process of discussing forecasts in detail with

representative stakeholders is an important part of ensuring that structural breaks like this are identified.

A missing element in the assumptions is the process by which AEMO chooses ‘candidate projects’ for including in the modelling from which the projects that constitute the optimal development path are chosen. The modelling does not consider every possible decision on the siting of a new generation source or storage asset. We doubt that every possible transmission augmentation is included. The list of candidate projects also needs to include a reason why, before the modelling, the project is considered ‘feasible.’

Finally, the forecasting guideline should emphasise the process of continuous improvement; how to make the next set of input assumptions an even more robust description of the likely future states of nature.

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

The role of ‘scenarios’ in planning depends in part on the purpose of the plan. In our submission to the ESB Post-2025 Market Design Issues Paper we expressed the view that the ISP scenarios were not an appropriate starting point for that work. The difference in large part is that the ISP is expressly about guiding near term investment decisions while the market design is about longer term policy decisions.

Notwithstanding our view that AEMO should have the freedom to model any policy setting that they think would make a material impact on the choice of the optimal development path, market design is considering a world with ‘greater degrees of policy freedom.’

While both uses need to consider ‘plausible’ scenarios, the scenarios for policy development need to consider scenarios that represent challenges that might be difficult to address. However, as described by AEMO in the Draft 2020 ISP (in a heading) they used ‘Scenarios and sensitivities to span all plausible operating environments’ providing the implication that in the space of plausible futures the scenarios mark out the outer edges. In practical reality they don’t.

But equally the scenarios need to do more than outlined in the Paper which constrains the scenarios to ‘a reasonable range of plausible future market environments, such that the analysis is not skewed by unrealistic events.’ “Unrealistic’ is interpreted to mean ‘highly unlikely’ rather than its more correct meaning of impossible.

The description of the scenarios to be chosen needs instead to reflect the purpose to which they are being put. The scenarios need to reflect plausible future system environments taking into consideration the possible changes in technology and society over the widest range of foreseeable options. Particularly given the emerging role of the Commonwealth’s Technology Roadmap and the National Hydrogen Strategy.

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?

We agree with the suggestion.

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?

The proposals are reasonable. The critical factor is that the choice of development paths represent the very different options involved. So there should be extreme paths that are based on a 'build the least amount of new transmission' and a 'build the least amount of new generation.'

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

We agree. Fundamentally the counterfactual should primarily contain the 'negative benefits' of no new investment — i.e. the cost to consumers of lost load due to insufficient generation or due to the inability to maintain the system in a secure state.

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

We agree with the proposals.

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

Sensitivity analysis performs two useful tasks. The first is to identify which of the assumptions has the biggest effect on the outcomes. That then provides a basis for reviewing inputs to test the robustness of the inputs that are most sensitive. The second is to identify whether the model is susceptible to instability effects from the interaction of variables in a complex system.

Sensitivity analysis is not a process of 'fine tuning' scenarios. In a world without resource constraints Monte Carlo modelling of a wide range of sensitivities can usefully give a statistical distribution of outcomes, but the model is simply too complex to achieve that.

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?

We agree with the proposal.

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?

We agree with the proposal.

If you have any questions regarding this submission please contact our Senior Economist, David Havyatt at david.havyatt@energyconsumersaustralia.com.au or on 0414 467 271.

Yours sincerely,

Rosemary Sinclair AM
Chief Executive Officer