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

By email: ISPguidelines@aer.gov.au

Draft Guidelines to make the Integrated System Plan (ISP) actionable

Dear Mr Feather,

Energy Consumers Australia appreciates the opportunity to comment on the *Draft guidelines to make the Integrated System Plan actionable* (the Guidelines) and the accompanying *Explanatory Statement*. We note that in January 2020 we made a submission in response to the issues paper for the development of the Guidelines.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments 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.

Summary

Energy Consumers Australia broadly supports the Guidelines which will provide a clear framework for the Australian Energy Market Operator (AEMO) to undertake its role as the author of the Integrated System Plan (ISP).[1]

Importantly, the Guidelines require transparency and rigour around the way AEMO develops the ISP – including the assumptions and engagement – which will help assure consumers that their interests are being served.

We also support the role for the Australian Energy Regulator (AER) envisaged in the Guidelines which is not to mirror or duplicate AEMO's role in developing the ISP, but to provide strong and independent oversight.

The Guidelines and the AER have a critical role to play given the priority that must be placed on energy affordability due to the extraordinary pressure households and small businesses are under because of COVID19. The recent history of overinvestment in network assets at a distribution level contributing to higher energy prices must also remain front of mind in the development of the ISP.

In this submission we also make suggestions about improving the Guidelines which are largely focussed on the forecasting, scenario planning and transparency aspects of the package, that go to:

- clarifying the drafting about how parties representing consumers register to participate in the development of the ISP.
- clarifying the drafting about the procedures relating to the staging of consultation processes and when reports will be made following meetings and consultation processes;

[1] We note the Australian Energy Market Commission is exploring whether the RIT and broader framework for transmission is fit for purpose in the *Electricity network economic regulatory framework review 2020.*

- adopting a consistent and transparent naming convention for projects to make it easier for stakeholders to tack their progress through the ISP process and into subsequent construction and operational phases; and
- requiring that scenario planning work undertaken under the Cost Benefit Analysis Guideline (CBAG) explore a range of plausible futures to ensure the authors of the ISP are thinking expansively about what the future holds for consumers and communities.

Setting expectations about transparency and engagement

A key challenge for these kinds of guidelines is to strike the right balance between flexibility and prescription.

In our view that means setting a high-level principles-based framework which gives AEMO the flexibility to adapt to changing circumstances and experiences to develop the best possible ISP, while at the same time ensuring that there are checks and balances on incentives to overbuild network capacity to manage system security and reliability risks beyond what consumers want or can afford.

We think the AER gets the balance right in the Guidelines.

However, we consider that success will rest heavily on AEMO bringing consumer and other voices into the process in meaningful ways that builds trust and confidence in the ISP as a blueprint for 'big infrastructure.' Not only that, AEMO's approach must also incorporates a sophisticated view about how energy consumers are using energy, engaging with new services and networks locally.

In the context of a complex and uncertain transition, this will mean that AEMO will not be able to adopt a fixed view about how it engages stakeholders in the development of the ISP.

Instead, AEMO will need to work towards contemporary models of 'transition design' which do not just attempt to just 'meet' expectations of stakeholders, but actually 'change' expectations.[2]

This could mean that the ISP provides a forum for stakeholders to not only develop 'network' or even 'non-network' solutions, but where justified, it acts to re-frame problems from a consumer point of view.

In this context, what from one point of view might look like a transmission capacity constraint, might from another look like a problem in the way energy retailers are structuring their offers to help their customer manage their energy use. Or indeed an issue about keeping the power on during the hottest day of the summer when the grid is under pressure, that can be solved by voluntary, community-minded action by households to temporarily reduce their energy use.

Energy Consumers Australia is keen to continue to engage with AEMO about how this truly 'integrated' approach to thinking about and planning the energy transition, with consumers at the centre' can be achieved.

Forecasting best practice

The Guidelines include the *Draft Forecasting Best Practice Guidelines*.

We appreciate the challenge involved in developing these kinds of guideline.

Where the future can be expected to reflect the past, forecasting is primarily a mathematical exercise of estimating parameters from historic data then applying them to future data. Given that the reason

[2] See Dr Cameron Tonkinwise's presentation at Foresighting Forum 2020 https://energyconsumersaustralia.com.au/projects/foresighting-forum

for the ISP is to manage an energy transition, we are faced with the difficulty of forecasting the future when the past may not be the best guide.

We think this guidance has been significantly improved since the draft Forecasting Best Practice Guidelines (FBPG) were developed for the Retailer Reliability Obligation (RRO). In particular we appreciate that the factors AEMO must have regard to when developing forecasting practice and processes, reflect the order we proposed in our submission on the draft FBPG of Transparency, Consultation and Post-Period Performance Review (which we called 'ensuring the forecasts are good').[3]

We also appreciate that the new draft FBPG provides clarity around AEMO conducting two different consultation processes – one periodic around its Forecasting Approach and the other (the single stage process) for determining the scenarios, inputs and assumptions that make up the Inputs, Assumptions and Scenarios Report (IASR).

We are however concerned about the parties with whom AEMO must consult.

Both consultation procedures require AEMO to consult with 'Consulted Persons' which is then defined in Appendix D as:

> *"…all persons nominated (including Intending Participants in the class of persons nominated) by the relevant provision as those with whom consultation is required or, if no persons are specifically nominated, all Registered Participants and interested parties."*

The question arises as to how parties indicate they are interested parties if AEMO is only required to 'give notice to' or 'invite' or 'hold meetings with' Consulted Persons.

Our specific concern is how parties who represent consumer interests are required to be included in the consultation. We appreciate the value of the ISP Consumer Panel which will be separately consulted on the completed IASR, however that is not a sufficient opportunity, especially as the definition extends to consultation on the forecasting approach.

The AEMO Forecasting Reference Group (FRG) is operating well from a consumer engagement perspective and we are keen to ensure that the Rules and Guidelines can build on that positive practice.

In a similar vein we note the description of a 'single stage process' for IASR components could be interpreted that consultation must be a single stage. In our response to the draft RRO FBPG we noted that the development of forecasts can be iterative, and this is a practice already being followed through AEMOs FRG in some instances. We suggest that the 'single stage process' be amended to not preclude AEMO issuing reports or calling for submissions prior to the cycle which will end with the published report.

Also, as a minor technical drafting issue, in paragraph (b) of Appendix B we suggest the start should be amended from "Following the conclusion of any meetings…" to "Following the conclusion of all meetings…"

It is our understanding that the first construction would require a report to be written for each meeting or may at least be fulfilled by writing a number of separate reports relating to different meetings.

We also seek clarity about the timings.

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[3] https://energyconsumersaustralia.com.au/wp-content/uploads/Draft-Interim-Forecasting-Best-Practice-Guideline-Retailer-Reliability-Obligation-Submission.pdf

AEMO must consider submissions within 30 days (e) and then following that consideration it must publish a report (f), and that report must be published as soon as possible (g). As the 30 days in paragraph (e) does nothing to constrain how long AEMO takes to complete and publish the report, we think the specification of the 30 days is unnecessary. We are concerned that this may create a risk if a party disputes the validity of the final report if AEMO, in preparing the report, 'reconsiders' a submission.

Scenarios

Scenarios are the mechanism by which the great uncertainty of future events is designed to be incorporated in the ISP.

Scenarios help to identify potential blindsides from within and without the sector and helps us consider issues from within the energy sector in a broader economic and social context. The extraordinary social and economic shocks associated with the recent bushfires and COVID19 are examples of events and circumstances materialising that are outside the expected and disrupting what we think about these planning processes.

Last year we developed four plausible scenarios detailed in the report *Futures of Heat, Light and Power: Scenarios for the Australian Energy Sector in 2050* using the Oxford Scenario Planning Approach. Scenario development is an important process for consumers given how we use energy at home and work in the future will help inform how to continue to transition our energy system from a small number of big things to a large number of small things.

We welcome the more expansive approach to scenarios in the latest draft FBPG which give AEMO the space to 'explore uncertainty. Earlier versions of the document were unduly narrow, framing the scenarios as being 'reasonable' and representing 'different plausible future market environments'.

This accords with best practice approaches to scenario work which explores the edges of plausible futures rather than clusters around some identified 'most likely' pathway.

To explore the range of worlds consumers may face in the future, the scenarios should be more than just different speeds of variation of different input parameters, but different ways of thinking about how the energy transition might unfold in terms of consumer choices, social practice, technologies, and the structure of the economy etc.[4]

We do note however that the CBAG at section 3.2.2 adopts the narrow view by requiring that parameters vary around a 'most probable value'. We suggest this section be amended to take the broader approach.

We also note that Section 3.2.2 also appears to suggest that scenarios can be developed in terms of 'uncertainties' deviating from an optimal development path.

The value of the scenarios in the context of a process like the ISP is that they, to put it simply 'come first', providing a basis for thinking about the optimal pathway. It may be that what is intended in this section is that a new set of scenarios (different to the base scenarios in the IASR) is developed after the optimal pathway is developed.

Finally, we note that the AER has responded to several submissions that had suggested that AEMO should weight each scenario according to its likelihood of occurring.

[4] The tendency to create 'central scenarios' in these kinds planning exercises, including in the 2020 ISP, is problematic in that it can encourage people to think of work in terms of more certain 'forecast'.

While this is an approach often deployed in cost benefit analysis it is less suited to scenario work because the analyst does not have the information they need to meaningfully assign probabilities – this being a reason why scenarios are being used in the first place.

Additionally, each scenario is a set of point estimates across a wide range of parameters most of which are continuous real numbers. The probability of any scenario actually occurring is therefore zero in every case.

Transparent and consistent project names

The Guidelines frequently refer to 'projects,' be they projects that have been included in the optimal development path, or projects that were considered by AEMO as alternatives to the optimal development path.

We observed in our submission on the Issues Paper:

> *A missing element 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, nor every possible transmission augmentation. The list of candidate projects should include a reason why, before the modelling, the project is considered 'feasible'.*

It is unclear from the adoption of 'marketing names' to projects (for example, EnergyConnect, HumeLink) whether projects are the same or different projects to projects from one ISP to the next which undermines transparency and public engagement in the process.

We encourage the AEMO and the AER to develop and adopt a consistent naming convention to describe all network and non-network projects considered as part of the ISP development, and that this list of projects be published alongside the draft and final ISPs and that projects must retain the same identifier from one ISP to the next.

Further discussion

We would like to acknowledge the AER's engagement with consumer voices on this important matter, in particular the meeting on 10 June 2020 which was also attended by AER Board member Catriona Lowe. We are also engaging positively with AEMO about the ISP and bringing consumers into the centre of planning about the energy transition more generally.

Thank you again for the opportunity to provide feedback on the development of the Guidelines. Please do not hesitate to contact Shelley Ashe, Associate Director Networks via email on shelley.ashe@energyconsuemrsaustralia.com.au if you would like to discuss this submission further.

Yours sincerely,

L Gallagher

Lynne Gallagher
Interim CEO