

18 May 2018

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Reliability Frameworks Review Directions Paper – EPR0060

Hydro Tasmania appreciates the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) Directions Paper for the Reliability Frameworks Review.

The National Energy Market (NEM) is undergoing a period of significant transformation, primarily driven by a changing generation mix. The Reliability Frameworks Review provides a beneficial opportunity to consider reliability in the NEM and potential options to enhance reliability frameworks. Since the commencement of this review, the Energy Security Board (ESB) has made significant progress in the design of the National Energy Guarantee (NEG). The NEG has the potential to have a material impact on the way in which reliability is managed in the NEM. Hydro Tasmania therefore believes that the design elements of the NEG need to be considered alongside the AEMC's review.

The Directions Paper has provided significant insight and analysis on a variety of reliability topics, including: forecasting and information provision; day-ahead/ahead markets; wholesale demand response; and strategic reserves. We note that the AEMC currently has two rule changes 'open' or 'pending' in relation to strategic reserves, as well as the ESB's consideration of a 'procurer-of-last-resort' function under the NEG. We look forward to providing comment on these processes in due course. Attachment I highlights Hydro Tasmania's views on the analysis and proposed improvements to the NEM's reliability frameworks as listed in the Directions Paper.

Hydro Tasmania looks forward to ongoing engagement with the AEMC. If you would like further information on any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au) or (03) 6230 5313).

Yours sincerely



Steve Davy
CEO

Attachment I – Hydro Tasmania’s extended response to the Directions Paper

Forecasting and Information Provision

Hydro Tasmania is supportive of initiatives which will improve forecasting accuracy in the NEM as this will likely lead to more efficient market outcomes. However, it is important that the initiatives proposed in the Directions Paper, such as allowing semi-scheduled generation to conduct their own forecasting, should only be pursued if there is clear evidence to demonstrate that they will enhance the accuracy and availability of information to market participants in a cost-effective manner. If untested solutions to enhance the accuracy of forecasting are implemented, this may result in costly, ineffective systems and/or processes being imposed on market participants.

Hydro Tasmania supports the proposed initiative to regularly report on the accuracy of forecasting. This reporting would allow market participants to review the accuracy of forecasts, and where possible, allow the opportunity to propose enhancements to the existing forecasting framework. This reporting could be conducted by a third party, such as the Australian Energy Regulator, who could work with the Australian Energy Market Operator (AEMO) to consider the appropriateness of existing processes and potential enhancements.

Hydro Tasmania is supportive of the AEMC’s intention to review results from the current AEMO-ARENA trial allowing semi-scheduled generators to forecast their own output. Reviewing the results from the AEMO-ARENA trial will allow the market to consider whether there is merit in this becoming a permanent feature of the NEM. Hydro Tasmania believes that, if it is determined that this should be a permanent feature in the NEM, it is important that this approach should be on an ‘opt-in’ basis only, rather than compulsory. This will allow generators who are best placed to offer their own forecasts to do so, without imposing unnecessary costs on those generators who are not positioned to develop their own forecasts required for the system operator.

The Directions Paper discusses an option to place obligations on retailers to provide their own demand-side forecasting. This is a significant departure from current market processes and should only be considered further if less transformative amendments to current market design are ineffective in enhancing forecasting in the NEM. This option risks imposing significant costs on retailers, which would ultimately be borne by customers, and which may also not result in enhanced forecasting accuracy.

Ahead Markets

It is apparent that ahead-markets have played a beneficial role in other jurisdictions. However, Hydro Tasmania supports the AEMC’s view that, when considering the potential benefits of ‘ahead-market’ designs in the context of the NEM, there ‘... needs to be an identification of the parts of the existing market design that may no longer be serving its purpose.’^[1] It is understood that AEMO are currently gathering information that may indicate deficiencies in current market design which could be addressed by an ‘ahead-market’. Hydro Tasmania would welcome the opportunity to review AEMO’s findings in due course. As deficiencies in the current market design are identified, it is appropriate to consider incremental enhancements alongside more dramatic changes to the NEM. For example, the

^[1] Pg. 82, Directions Paper

introduction of an 'ahead-market' would constitute a dramatic change to the NEM, and would need to be considered alongside other planned reforms, such as the NEG, AEMO's Integrated System Plan, and potential improvements to forecasting processes.

Wholesale Demand Response

Hydro Tasmania agrees that Wholesale Demand Response (WDR) is likely to '*...increasingly play a role in the future of the NEM*¹. Acknowledging the heightened focus on WDR, Hydro Tasmania supports further exploration and development of options such as those proposed in the Directions Paper. While WDR is complex in nature, an appropriate framework successfully implemented, should provide significant benefits to the market as a whole.

A number of issues with the proposed options require further consideration in order to adequately address customer, aggregator and retailer risks, whilst still encouraging innovative product offerings. Some of these issues are discussed below:

- Allowing third-party aggregators to engage a customer, without appropriate coordination and clear delineation of responsibilities could negatively impact retailers and consumers. One example relates to the requirement for retailers to meet various consumer protection obligations for their customer base, whether they are major industrial, small business, or household consumers. These obligations include financial hardship programs, customer support and administration of discounts. In considering options for incentivising demand response, it is important that the AEMC consider how consumer's needs would continue to be adequately met at differentiated levels (small to large).
- A further risk relates to exacerbating current levels of consumer uncertainty and confusion. As noted in the AEMC's 2017 Retail Energy Competition Review there is a high-degree of uncertainty and confusion held by consumers regarding products and pricing in the retail energy market.² Any process which facilitates WDR in the NEM via two distinct firms engaging one customer behind a connection point must be clear and transparent to ensure the products and services offered are clearly understood. Further, there will need to be different approaches for different customer segments.
- There may be merit in the proposed option to create an incentive scheme for retailers to offer WDR products/services. Hydro Tasmania supports further development of this idea, on the basis that it can adequately foster innovative solutions, and provide clear benefits across a range of customers.

¹ Pg. 112, Directions Paper

² Pg. 27, 2017 AEMC Retail Energy Competition Review