



**Energy Security Board  
Forecasting Technical Working Group**

**Independent approval to trigger – Reliability Requirement  
Issues Paper**

## **Introduction**

The purpose of this paper is to facilitate discussions with Jurisdictions and the Technical Working Group (TWG) on the detailed design elements of the independent assessment of a request to trigger the reliability obligation. Following the SCO Reference Group and TWG meetings, a more detailed technical working paper will be developed. The technical working papers and draft final design document will be available for public consultation in mid-June.

## **High level design**

The Energy Security Board (ESB) has agreed that this element of the Guarantee would operate as follows:

- Each year, as part of its Electricity Statement of Opportunities (ESOO) process, AEMO would assess whether the **NEM reliability standard** will be met and if not whether a **'material'** reliability gap exists.
- If a material gap persists or emerges **3 years** out from the **period** in which the gap is forecast, AEMO would submit a request to an **'independent entity'** to trigger the reliability obligation on retailers and large customers.
- If the independent entity confirms AEMO's assessment, liable entities that have not transferred their obligation to a retailer will need to assess their likely share of system peak demand and secure sufficient 'qualifying contracts' to cover this.

The objective of the independent entity's assessment is to provide confidence to market participants that the information and processes informing any decision to trigger the reliability obligation is robust given significant stakeholder concerns about relying on forecasts to determine the required level of capacity in the market.

## **Detailed design elements for TWG input**

1. What should be the nature and scope of the independent entity's role?
2. Which body should be tasked with making the decision to trigger reliability the obligation?
3. What process should the independent entity follow in assessing a recommendation from AEMO to trigger the reliability obligation? For example, what criteria should decision making and consultation be based on?

## 1. What should be the nature and scope of the independent entity's role?

The role of the independent entity is to determine whether a recommendation from AEMO to trigger the reliability obligation should be accepted, based on all information available.

A key issue which that will need to be taken into account in determining how the scope of the independent entity's role should be defined is how best to achieve the objective of enhancing confidence in forecasting information at an acceptable cost. This includes, consideration of what other mechanisms are in place or planned to improve the quality and transparency of forecasts. For example, robust, backward looking reviews (looking at performance against actual outcomes) of AEMO's ESOO and MT PASA processes will help improve the forecasting process and give greater confidence in them to market participants as will the opportunity for participants to dispute and contest assumptions and parameters used in the forecasts..

The design of an independent decision-making mechanism will need to achieve a balance between the necessary transparency to give confidence to the market, without adding a complex and protracted process that duplicates AEMO's processes.

### Questions:

- How might improvements to the transparency of forecasting interact/inform the scope of the independent entity's assessment?
- What level of scrutiny of AEMO's recommendation is sufficient to provide confidence to the market without imposing unnecessary costs and duplication?
- Should any principles and/or specific criteria be established to guide the independent entity's assessment?

## 2 Which body should be responsible for triggering the retailer reliability obligation?

The choice of an appropriate independent entity to trigger the reliability obligation will depend on the nature and scope of the role it must perform. The key features of the role require:

- Expertise available in modelling and forecasting to allow informed assessment of the AEMO recommendations and the making of the decision to trigger the reliability obligation.
- Independence from those liable entities who would be subject to the reliability obligation once triggered as well as AEMO as the recommending body who has done the forecasting and determined a reliability gap.
- Statutory powers to make a formal decision that liable entities may, at some time in the future, be subject to compliance and enforcement action (including penalties) for non-compliance with reliability obligations.
- Infrequent likelihood of exercise, significant if required: The making of a decision to trigger the reliability obligation by an independent entity may not be called upon frequently, but because the nature and significance of the decisions require specialised advice, the body would need to be resourced and able to access the necessary expertise to assess the underpinnings of AEMO's request to trigger the reliability obligation when required.

Options for the independent entity that have been suggested for consideration include the ESB, the AER and the Reliability Panel. Further regulatory design work would need to be carried out to confer a function of any of these bodies, as discussed below.

### **ESB:**

The ESB (comprising each of the market bodies) is a non-statutory adviser to the COAG Energy Council set up on a time-limited basis to manage the transition of the NEM. To nominate the ESB as the independent entity to trigger the reliability obligation would require its establishment as an ongoing statutory entity whose function as independent entity may not be utilised often if at all.

### **AER:**

The AER is the statutory body established as the Regulator for the energy sector. It would be necessary to confirm that the nature of the role of independent entity (to trigger the start of a reliability obligation) would work consistently with the AER's broader compliance and enforcement functions in the energy sector.

### **Reliability Panel:**

The Reliability Panel is an advisory body and comprises representatives from the industry including AEMO, Market Customers, generators and consumers. The expertise of the Panel (reliability standard and settings and producing market reports on reliability and security of the power system) and its representative nature would make it seem to be an option to carry out the role of the independent entity from the perspective of expertise it can bring.

However, from the perspective of independence, the Panel is constituted with representatives who would have a direct conflict of interest in any decision as they would be liable entities. Generators may similarly have conflicts by way of competing incentives if they have a role in the decision to trigger the reliability obligation.

#### Questions:

- What factors are of importance in choosing the independent entity?
- How should these factors inform the choice of the independent entity?
- Are there any additional benefits/drawbacks relating to the ESB/AER/AEMC Reliability Panel performing the role which have not been canvassed in this paper?

### **3 What process should the independent entity follow in assessing a recommendation from AEMO to trigger the reliability requirement?**

The design of an effective and efficient process for the role of the independent entity flows from design decisions about the nature and scope of the decision-making role and the body making the decision. But the following design elements would need to be included: A requirement that AEMO make a 'recommendation' to the independent entity to trigger a reliability obligation based on AEMO's analysis through the ES00 processes and identification of a material reliability gap in accordance with the requirement of the NEG regime.

- Consultation and timeframes.
- Provision of information to the decision making of the independent entity, including by AEMO.
- Scope of powers of the independent entity to approve or reject a recommendation.
- Guidance to the independent entity as decision maker (mandatory criteria, relevant considerations; principles).

Questions:

- What steps would AEMO take to seeking approval/ making a recommendation from the independent entity?
- What information would need to be provided to the decision making of the independent entity, including by AEMO?
- What consultation should be included in the process for the independent entity's assessment of the AEMO request?
- What timeframes would apply to the process for the independent entity's decision making?
- What guidance is to be given to the independent entity as decision maker (mandatory criteria, relevant considerations; principles)?
- What would be the scope of the powers of the independent entity to approve or reject a recommendation?

### **Interdependencies with other elements of the Guarantee**

- Forecasting – methodology and accountability
  - Forecasting – calculating the reliability gap
  - Contracts - Procurer of Last Resort
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