



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (AEMO access to demand forecasting information) Rule 2015

Rule proponent
COAG Energy Council

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**RULE
CHANGE**

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 Introduction

On 2 February 2015, the COAG Energy Council submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to giving the Australian Energy Market Operator (AEMO) access to information to develop demand forecasts for each region of the National Electricity Market (NEM) at the transmission connection point level.¹

The transmission connection point demand forecasts may be used by AEMO in the development of its National Transmission Network Development Plan (NTNDP). The forecasts may also be used by Transmission Network Service Providers (TNSPs) to inform their investment decisions and by the AER to assess TNSPs' regulatory proposals as part of revenue determination processes.

This consultation paper has been prepared to facilitate public consultation on the rule change proposal, and to seek stakeholder submissions on the rule change request.

This paper:

- provides some context to, and sets out a summary of, the rule change request;
- identifies a number of questions and issues to facilitate consultation on the rule change request; and
- outlines the process for making submissions.

¹ For the purpose of this consultation paper, the transmission connection point is the where the distribution network meets the transmission network.

2 Context of the rule change request

Currently, AEMO produces a number of annual publications to facilitate efficient transmission network investment in the NEM. These include:

- the NTNDP which provides AEMO's view of the efficient development of the transmission network in the NEM for the next 20 years;
- the National Electricity Forecasting Report which provides electricity consumption forecasts for each NEM region for the next ten years; and
- the Electricity Statement of Opportunities which provides AEMO's assessment of supply adequacy in the NEM for the next 10 years.

In addition, AEMO has recently begun to publish transmission connection point demand forecasts for each region in the NEM. To date, it has published transmission connection point forecasts for all NEM regions except Queensland. AEMO expects to publish updated transmission connection point demand forecasts for each region of the NEM annually.²

The transmission connection point forecasts have been prepared by AEMO as a result of the 2012 COAG endorsed energy reform package. As part of this package, the then Standing Council on Energy and Resources (SCER) requested AEMO to provide demand forecasts to the Australian Energy Regulator (AER) to enhance the AER's ability to assess demand forecasts submitted by network service providers as part of their regulatory proposals.³ For similar reasons, the AEMC also recommended that AEMO produce transmission connection point demand forecasts for each region in the NEM in its transmission frameworks review final report in April 2013.⁴

As part of the 2012 reform package, the then SCER was also tasked with preparing a rule change request should AEMO not have access to the information required to prepare the connection point forecasts.⁵ The result of this work is the current rule change request.

Related to this rule change request, the AEMC has recently completed an assessment of a rule change request aimed at improving demand side participation information provided to AEMO by registered participants.⁶ The resulting final rule provides a process by which AEMO may obtain information on demand side participation from registered participants in the NEM.⁷

² AEMO website, www.aemo.com.au, viewed 17 April 2015.

³ SCER, *COAG Energy Market Reform - Implementation Plan*, 7 December 2012, pp10-11.

⁴ AEMC, *Transmission Frameworks Review Final Report*, 11 April 2013, pp145-146.

⁵ SCER, *COAG Energy Market Reform - Implementation Plan*, 7 December 2012, pp10-11.

⁶ AEMC, *Improving demand side participation information provided to AEMO by registered participants*, Final rule determination, 26 March 2015.

⁷ *ibid.* pi.

In particular, it requires:

- registered participants to provide to AEMO information on demand side participation, in accordance with new guidelines;
- AEMO to develop these guidelines in consultation with registered participants and other interested stakeholders, providing these parties with an opportunity to engage with AEMO on the appropriate specification of the guidelines;
- AEMO to have regard to registered participants' costs of compliance with the guidelines compared to the likely benefits of the use of that information by AEMO for the purpose of its load forecasts under the National Electricity Rules (NER); and
- AEMO to publish details, no less than annually, on the extent to which demand side participation information has informed the development or use of its load forecasts.⁸

The rule also articulates the scope of required information that AEMO may specify in the guidelines.⁹

The rule commenced on 26 March 2015. AEMO must develop and publish the guidelines by no later than 26 September 2016.¹⁰

8 ibid. pp1-2.

9 ibid. p2.

10 ibid.

3 Overview of the rule change request

This Chapter sets out an overview of the COAG Energy Council's rule change request. Full details are included in the rule change request published on the AEMC's website.¹¹

3.1 The rule change request

The rule change request seeks to allow AEMO to collect information for the purpose of developing demand forecasts at the transmission connection point level.¹² It seeks to achieve this by expressly recognising connection point forecasting as a National Transmission Planner function (NTP function) for AEMO.¹³

As a consequence of this proposed change, the COAG Energy Council submits that AEMO would be able to use its existing information gathering powers in the National Electricity Law (NEL) to collect relevant information to develop transmission connection point demand forecasts.^{14 15} These information gathering powers are in the form of market information orders and market information notices which are similar to regulatory information orders and regulatory information notices that the AER can use to collect information for the purpose of its functions.¹⁶ More information on AEMO's information gathering powers under the NEL is provided in Appendix A.

In addition to allowing AEMO to collect information to develop transmission connection point forecasts, the proposed rule:

- clarifies that AEMO may consult with the AER in developing the forecasts;
- requires the resultant demand forecasts to be included in the NTNDP database; and
- requires AEMO to provide the demand forecasts to the AER upon the AER's request.¹⁷

The rule change request also seeks to amend clause 5.20.5 of the NER to require network service providers to provide assistance that AEMO reasonably requests in connection with the performance of its NTP functions.¹⁸ Currently this clause only

11 www.aemc.gov.au.

12 COAG Energy Council's rule change request, 30 January 2015, p3.

13 *ibid.*

14 The NEL provides that AEMO can issue a market information instrument requesting information from a person or a class of persons if it considers it reasonably necessary to do so for the exercise of a relevant function, which includes NTP functions.

15 COAG Energy Council's rule change request, 30 January 2015, p3.

16 The AER's general information gathering powers in the NEL are set out in Part 3 Division 3.

17 *ibid.* pp6-8.

18 *ibid.* pp6-7.

places an obligation on jurisdictional planning bodies to provide this assistance to AEMO.¹⁹

The COAG Energy Council's rule change request includes a proposed rule.²⁰

3.2 Reasons for the rule change request

The COAG Energy Council states that understanding long term trends in demand is essential for planning and developing electricity networks to ensure consumers do not pay for the building and maintenance of unnecessary assets or assets built to a higher capacity than is required.²¹ It considers that while AEMO already collects other data and information for network planning and supply capacity forecasts, it also requires detailed connection point data and information from network service providers to improve its forecasts.²²

The COAG Energy Council submits that forecasting at the connection point level is a developing function for AEMO and there may currently be a shortfall in the information AEMO can collect to develop these forecasts.²³

In addition to AEMO's network planning role, the COAG Energy Council notes that connection point demand forecasts may be used by TNSPs in informing their investment decisions and by the AER in assessing TNSPs' regulatory proposals.²⁴

19 A jurisdictional planning body is defined in the NEL as "the entity nominated by the relevant Minister of a participating jurisdiction as having transmission system planning responsibility in that participating jurisdiction." According to AEMO's website the jurisdictional planning bodies are the TNSPs in each state except in Victoria where it is AEMO.

20 COAG Energy Council's rule change request, 30 January 2015, p6.

21 *ibid.* p7.

22 *ibid.*

23 *ibid.* pp7-8.

24 *ibid.* p8.

4 Assessment framework

The Commission's assessment of this rule change request must consider whether the proposed rule promotes the national electricity objective (NEO) as set out under s. 7 of the NEL. The NEO states:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity;
and
- (b) the reliability, safety and security of the national electricity system.”

The most relevant aspect of the NEO for the purpose of this rule change request is the efficient investment in, and operation of, electricity services, in particular the transmission network in the NEM.

To determine whether the proposed rule, if made, is likely to promote the NEO the following principles will be taken into account:

- **Potential for better informed investment and operational decisions.** If the proposed rule is made and has the effect of improving AEMO's demand forecasts then this may lead to improved planning forecasts by AEMO. This, in turn, may lead to more efficient investment and operational decisions by energy market stakeholders.²⁵

The proposed rule would also give the AER access to a set of forecasts of demand at the transmission connection point level that are independent of the TNSPs. The AER could use these forecasts to assess TNSPs' connection point forecasts in their regulatory proposals. This may lead to better revenue determinations by the AER and therefore more efficient investment and operation of the networks by TNSPs.

- **Potential regulatory and administrative burden.** The potential regulatory and/or administrative burden on network service providers and AEMO that may arise if the proposed rule is implemented.

The proposed rule will be assessed against the relevant counterfactual of not making the proposed change to the NEL. That is, against the current situation where there is no explicit provision in the NEL allowing AEMO to develop forecasts of demand at the transmission connection point level as part of its NTP functions.

²⁵ In this context, other energy market stakeholders may include market participants, consumers and network service providers.

5 Issues for consultation

There a number of issues for consultation that are relevant to this rule change request. These issues, outlined below, are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed assessment framework.

5.1 Is there a problem?

5.1.1 Usefulness of the information and where the demand forecasting function appropriately sits

As set out in section 3.1, the rule change request seeks to allow AEMO to develop transmission connection point forecasts for each region of the NEM.²⁶ As a consequence of this proposed change, the COAG Energy Council submits that AEMO would be able to use its existing information gathering powers in the NEL to collect relevant information to develop transmission connection point demand forecasts.²⁷

The proposed rule would also require AEMO to include the forecasts in the NTNDP database.²⁸ In addition it would require AEMO to provide the forecasts to the AER upon the AER's request.²⁹

The COAG Energy Council submits that the improvement in AEMO's access to information and resultant demand forecasts may:

- lead to better planning forecasts by AEMO in its NTNDP;
- result in better informed investment decisions by network service providers, in particular TNSPs; and
- better assist the AER to assess TNSPs' regulatory proposals for revenue determinations.³⁰

26 COAG Energy Council's rule change request, 30 January 2015, p3.

27 *ibid.*

28 *ibid.* p6.

29 *ibid.*

30 *ibid.* pp5 and 8.

Question 1

- a) Will giving AEMO access to information to develop transmission connection point forecasts enable AEMO to produce improved transmission planning forecasts in the NTNDP?
- b) Will transmission connection point forecasts prepared by AEMO enable TNSPs to make better informed investment decisions?
- c) Will the demand forecasts assist the AER in assessing TNSPs' regulatory proposals?

Question 2

- a) Following on from question one, does the development of demand forecasts at the transmission connection point level appropriately sit within AEMO's national transmission planning function?
- b) Alternatively, should the AER develop these forecasts as part of its regulatory functions, should it consider them useful?

5.1.2 Can AEMO already collect the information?

As set out in section 3.1, the rule change request seeks to allow AEMO to develop connection point forecasts for each region of the NEM at the transmission connection point level.³¹ As a consequence of this proposed change, the COAG Energy Council submits that AEMO would be able to use its existing information gathering powers in the NEL to collect relevant information to develop transmission connection point demand forecasts.³² If made, the proposed rule would also require the demand forecasts to be included in the NTNDP database.³³

As noted in section 5.1.1, the COAG Energy Council considers that access to information to develop transmission connection point forecasts would enable AEMO to improve its transmission planning forecasts, in particular the NTNDP.³⁴ The development of the NTNDP and the associated NTNDP database are NTP functions in the NEL.³⁵ This allows AEMO to collect information relevant to these functions using its information gathering powers under the NEL.³⁶

Related to this, demand forecasts are included as one of the detailed requirements of the NTNDP and NTNDP database in the NER. Specifically, clause 5.20.3(c)(4) of the

³¹ COAG Energy Council's rule change request, 30 January 2015, p3.

³² *ibid.*

³³ *ibid.* p6.

³⁴ *ibid.* p8.

³⁵ s. 49(2) of the NEL.

³⁶ Further information on AEMO's information gathering powers in the NEL is provided in Appendix A.

NER currently provides that the NTNDP must identify a range of credible scenarios for the geographic pattern of the demand for, and supply of electricity for the planning horizon of the NTNDP. Clause 5.20.4(b)(6) requires an input into the NTNDP to be electricity demand forecasts.

Given that the NER requires demand forecasts to be part of the NTNDP and NTNDP database and these are existing NTP functions for AEMO under the NEL, it could be argued that AEMO is already able to collect information to develop transmission connection point forecasts. On this view, the proposed change to the NER may therefore not be required.

Question 3 **It is arguable that AEMO can already use its information gathering powers in the NEL to compel the relevant persons to provide information for transmission connection point forecasts. Should this be put beyond doubt in the NER?**

5.2 The level of connection point forecasting

The objective of the rule change request is to allow AEMO to develop forecasts of electricity demand at the transmission connection point level. To implement this objective, proposed clause 5.20.6(a) of the proposed rule is drafted as follows:

“In its capacity as National Transmission Planner, AEMO may develop forecasts of electricity demand at a regional or connection point level.”

Firstly, a connection point is a defined term in the NER and it has a broader meaning than a transmission connection point.³⁷ A more specific term may therefore be 'transmission-distribution connection point' as defined in clause 5.10.2 of the NER. This term is defined as:

“(a) subject to paragraph (b), the agreed point of supply established between a transmission network and a distribution network;

(b) in relation to the declared transmission system of an adoptive jurisdiction, the agreed point of supply between the transmission assets of the declared transmission system operator and a distribution network.”

Secondly, the proposed rule also allows AEMO to develop demand forecasts at a 'regional level'.³⁸

The rule change request intends to give AEMO the power to collect information to develop demand forecasts at the transmission connection point level. This would

³⁷ A connection point is defined in the NER as "The agreed point of supply established between Network Service Provider(s) and another Registered Participant, Non-Registered Customer or franchise customer".

³⁸ Currently there are five regions in the NEM: Queensland, New South Wales, Victoria, Tasmania and South Australia.

subsequently enable AEMO to collect information to develop demand forecasts at the regional level given that regional level forecasts would be a consolidation of the transmission connection point forecasts. On this basis, it may not be essential include the proposed explicit reference to demand forecasts at the 'regional level' in any rule made although it may provide clarity to AEMO's functions.

Question 4 **As regional level demand forecast information is an aggregation of transmission connection point forecasts, should the NER also refer to regional demand forecasts as proposed?**

5.3 Development and provision of the demand forecasts to the AER

As set out in section 3.1, under the proposed rule AEMO would be given a discretion to consult the AER in developing the transmission connection point forecasts.³⁹ AEMO would also be required to provide the forecasts to the AER if the AER requests them.⁴⁰

However, there are a number of avenues currently in place for consultation and information sharing between the AER and AEMO. In particular:

- if implemented, the proposed rule would also require the demand forecasts to be publicly available in the NTNDP, subject to the confidentiality provisions in the NEL;
- the AER and AEMO have agreed to communicate and share information relating to their functions in a memorandum of understanding⁴¹; and
- s. 54 of the NEL allows for the disclosure of protected information between the two organisations.

Question 5 **Should AEMO be given an express discretion to consult with the AER on the transmission connection point demand forecasts?**

Question 6 **Should AEMO be explicitly required to provide the AER with the transmission connection point forecasts if the AER requests them?**

5.4 The form of AEMO's information gathering powers

As set out in section 3.1, the COAG Energy Council proposes to amend clause 5.20.5 of the NER to require network service providers to provide assistance AEMO reasonably requests in connection with the performance of its NTP functions. Currently this clause

³⁹ COAG Energy Council's rule change request, 30 January 2015, p5.

⁴⁰ *ibid.*

⁴¹ Memorandum of understanding between AER and AEMO, June 2011.

only places an obligation on jurisdictional planning bodies to provide this assistance to AEMO.

In this way, the proposed amendments to this clause would extend the obligation in this clause to distribution network service providers and the transmission network owner in Victoria, currently AusNet Services. Other TNSPs are already caught by the current clause because of their roles as jurisdictional planners.

If this clause was amended as proposed by the COAG Energy Council, AEMO could seek to use this clause to seek information from network service providers for the purpose of developing demand forecasts at the transmission connection point level as an alternative to using its information gathering powers under the NEL as allowed for under the proposed rule. It is expected that most of the information to develop the transmission connection point forecasts will be sourced from distribution network service providers.

Question 7	Should AEMO be given a rules based power to gather the information to develop the transmission connection point forecasts in addition to its information gathering powers under the NEL?
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6 Lodging submissions

Submissions on the rule change request are to be lodged by 4 June 2015. Submissions are to be lodged online via the Commission's website, www.aemc.gov.au or by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by fax to (02) 8296 7899.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.⁴² The Commission publishes all submissions on its website, subject to a claim of confidentiality.

All enquiries on this project should be addressed to Neil Howes on (02) 8296 7800.

⁴² This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
NTNDP	National Transmission Network Development Plan
NTP functions	AEMO's National Transmission Planner functions as described in s. 49(2) of the NEL
SCER	Standing Council on Energy and Resources (now COAG Energy Council)
TNSP	Transmission Network Service Provider

A AEMO's information gathering powers in the NEL

AEMO's information gathering powers in the NEL are set out in Part 5 Division 5.

Specifically, the NEL provides that AEMO can request information from a person or a class of persons if it considers it reasonably necessary to do so for the exercise of a relevant function.⁴³

The instruments in the NEL that AEMO can use to collect information for the purpose of a relevant function are market information orders and market information notices. A market information order may require information from a class of persons. A market information notice may require information from one person. These market information instruments may require the provision of information on an annual or other periodic basis.

In considering whether to serve a market information order or market information notice, AEMO must have regard to the reasonable costs of efficient compliance. In addition, AEMO must invite written representations from whom the instrument is to be served before making it.

If a person does not comply with a market information instrument then they may be subject to a civil penalty. In addition, penalties can be imposed for providing false or misleading information in response to a market information instrument.

⁴³ A relevant function is defined in the NEL and includes NTP functions.