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Sent by: email to energy.forecasting@aemo.com.au

Draft Decision on demand side participation forecast methodology

Major Energy Users Inc (MEU) is pleased to provide its thoughts in response to the consultation on the draft decision on demand side participation (DSP) forecasting methodology.

The MEU was established by very large energy using firms to represent their interests in the energy markets. As most of the members are located regionally and are the largest employers in these regions, the MEU is required by its members to ensure that its views also accommodate the needs of their suppliers and employees in those regional areas. It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (GMRG, ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

DSP is becoming an integral element of the National Electricity Market (NEM) in that DSP can be provided at a lower cost than through the provision of more supply side options. Despite this, the current approaches to assessing how much price responsive DSP is available to assist in the market, particularly at times of high system demand tends to be under-estimated and as a result the forecasts of the reliability needs of the NEM are biased by supply side options, or market intervention in the form of RERT procurement often increasing the costs of electricity to end users. It is with this in mind that the MEU makes the following observations about the draft decision prepared by AEMO of its forecasting methodology.

The MEU notes that DSP can take many forms and be delivered by different participants for different reasons. In particular, the MEU notes that AEMO expresses a view that any DSP that might be used for RERT (because they are included in a RERT panel) should be excluded from the DSP values used in the various reliability forecasts. The MEU accepts that a provider that has a contract for providing RERT should not be included in observed DSP outcomes for the duration of the RERT contract or has not received payment for being a RERT provider at the time a DSP

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response is observed. Despite this, the MEU considers that other observed DSP responses (including from a RERT panellist that has not been contracted and/or paid to provide RERT) should be accepted as a DSP provider to the wholesale market and therefore included in the forecast of DSP.

The MEU points out that all end users, even those perceived to have a very flat demand profile, exhibit considerable variation in their electricity usage and it appears that, when assessing its observations of DSP response to be used in DSP response forecasts, AEMO has assumed the DSP provider demand will always be operating at its rated demand. While this approach makes some sense, what is overlooked is that in the AEMO forecast of system demand, it uses a probabilistic approach to forecasting maximum demand which already includes the actual variable usage of every end user. This means that effectively AEMO is using different measures for what DSP might be provided; that is, AEMO uses one measure for the DSP provider and another demand measure for the system demand. The net effect of this approach is to artificially reduce the amount of DSP that will be available for future dispatch.

The MEU also points out that care needs to be taken when assessing the different bases for assessing the amount of DSP in that the higher the system demand, the more likely the system price will be higher. The higher the system price the greater the incentive to provide DSP. This means that there is a likelihood of DSP provision being lower when system demand is lower but higher when it is needed. AEMO needs to ensure that the forecast DSP reflects what is likely to occur when it is most needed. The MEU considers AEMO's use of the 50th percentile of historically observed DSP to be a conservative assumption and believes use of a higher percentile is justified.

The MEU is also concerned that AEMO will only assess DSP once a year, as part of the ESoO unless AEMO considers there is sufficient reason to carry out an ESoO update. The MEU notes that the NEM is becoming more volatile and with volatility comes a need to address forecasts more frequently to ensure that the forecast is as accurate as possible. The MEU is aware that AEMO updates other forecasting tools elements (eg MTPASA and EAAP) more frequently than annually and the MEU considers that the DSP should also be updated on a more frequent basis to reflect changes in the NEM.

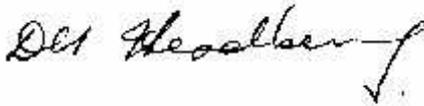
Due to the excessive amount of stakeholder consultation in recent times, the MEU has been limited in the degree to which it was able to commit resources to assessing these guidelines. With this in mind, the MEU has carried out considerable dialogue with other stakeholders about this topic. This dialogue has had the effect of both acquiring information and providing input into other stakeholder submissions.

With this in mind, the MEU considers that the submission provided to AEMO by ERM Power on this topic, provides a good summation of the views and concerns

that the MEU has with regard to the RSIG, MTPASA and EAAP guidelines and ESoO methodology. Specifically, the MEU points out that its other concerns are more clearly addressed in the ERM submission.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary

Yours faithfully

A handwritten signature in black ink, appearing to read "D. Headberry". The signature is written in a cursive style with a long horizontal stroke at the end.

David Headberry
Public Officer