



03 May 2018

Mr John Pierce
Chairman
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

RE: ERC0232 Reporting of aggregate generation capacity for MT PASA Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper for AEMO's rule change request - Reporting of aggregate generation capacity for the medium term projected assessment of system adequacy (MT PASA).

About ERM Power Limited

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹ with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

www.ermpower.com.au

General comments

ERM Power supports AEMO's rule change request to remove the requirement to include the impact of network constraints in the reporting of aggregate generation capacity for MT PASA. ERM Power was a participant in AEMO's industry working group for improvements to the MT PASA process and agrees the new deterministic MT PASA process no longer supports the requirements of Clauses 3.7.2(f)(5A) and (5B), which require AEMO to distinguish between, and separately report on, aggregate capacity of scheduled generation in a region that can and cannot be generated continuously at the PASA availability, and forecast generation of semi-scheduled generating units after allowing for the impact of network constraints and supports the removal of the provisions.

We also believe the MT PASA process would benefit from an additional change to remove a significant issue with regards to information asymmetry in the MT PASA process which will also result in efficiency gains for both the National Electricity Market (NEM) and the East Coast Gas Markets. We submit that in addition to publishing aggregate, energy constrained and energy unconstrained generation on a regional basis, it would be beneficial for the AEMC to make a more preferable rule change to enable AEMO to publish data on an individual generating unit basis; we set out our reasons for this below.

¹ Based on ERM Power analysis of latest published financial information.

Benefits of publication of individual generator data in the MT PASA

The current MT PASA requirements were originally developed prior to NEM start. At that time there were concerns that the Market would be best served from a competition perspective by limiting all forms of real time individual generation data as much as possible and that publishing PASA data on an individual generator basis could allow a form of signalling between competing generators. The NEM at that stage was composed of a large number of competing generator businesses with an absence of the current large vertically integrated “gentailers” structures that dominate the NEM today.

As the NEM has developed over the intervening period, it has been clearly demonstrated that competition has benefited from increased transparency in generator data. Today, actual real time individual generator output is transparent to all. This outcome was actually prevented during the original market design consultation on the grounds it may have led to a lessening in competition. These concerns have been proven to be unfounded with the high visibility in changes in generation output now available in real time stimulating not just responses from other generators but also from the demand side.

With the consolidation of a significant share of NEM generator capacity into a small number of “gentailers”, via both direct control and indirect control via information provision requirements in power purchase agreements (PPAs), these large “gentailers” benefit from a significant information asymmetry benefit with regards to knowledge of generator full and partial outage plans. This is further compounded by the sharing of additional outside market knowledge of outages between the large “gentailers” due to;

1. Co-ordination of use and refurbishment of shared strategic spares between same-type generators;
2. Co-ordination of timing of use of specialist contractor services; and
3. Procurement of large volume outage cover or outage insurance products between large portfolio “gentailers”.

Small generators, retailers, market intermediaries and consumers currently have a much lower level of information compared to these larger “gentailers” with regards to which generator will be out of service or limited in capacity.

Given the range of generator marginal costs and bidding structures apparent in today’s NEM, and the impact that different generators may have acting as a gatekeeper on interconnector flows, it is critical to understand not just that an outage is scheduled, but which generator is actually scheduled out of service due to the different impact that can manifest in market outcomes. This may also have implications for reliability of supply, as generators with different operational characteristics, ie baseload operation, results in differing requirements for replacement generation and fuel supply requirements to support this generation. Sourcing of additional fuel supply requirements would also be more cost efficient when this requirement is better understood well in advance of the need.

Currently, these smaller generators, retailers, market intermediaries and larger market facing consumers expend resources analysing MT PASA information to try and determine which generator may be planning an outage, sometimes with only limited success, we believe this is an inefficient use of resources. As the process has less than 100% accuracy, this increased risk that the actual generator out of service may be different to that forecast is passed through to counterparties and ultimately consumers in the form of a higher risk premium in wholesale and retail contract prices. It also impacts pricing in the gas markets where significant changes to fuel requirements for replacement generation at only short notice may be required once the actual generator on planned outage is known.

Generators currently submit MT PASA information to AEMO on an individual generating unit basis, as such; no additional information submission by generators is required. The only change that would be required would be an increase in the release of this information in the normal AEMO MT PASA process; this would incur a small one off data table change cost by AEMO and similar one off changes in participants systems to include and analyse the new data.



We believe this would provide efficiency benefits to the Market as a whole, both from an improvement in accuracy perspective and a reallocation of analyst resources to other beneficial endeavours.

We believe that this change could be implemented via a simple change to clause 3.7.2 (f) (5);

(5) aggregate **and individual** generating unit PASA availability for each region;

We believe the proposed change furthers the National Electricity Objective (the NEO) through the provision of relevant, consistent and transparent information to parties who require and value such information to carry out their responsibilities under the NER and in supporting the efficiency of the NEM.

Conclusion

ERM Power supports the changes to clauses 3.7.2(f)(5A) and (5B) as proposed by AEMO. We also submit that the Commission as part of this rule change process remedy a significant information asymmetry issue in the NEM by making a more preferable rule to allow the publication of individual generating unit data from the MT PASA process by AEMO. We believe this will have efficiency benefits for the Market as a whole.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

David Guiver
Executive General Manager - Trading

07 3020 5137 – dguiver@ermpower.com.au