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Thursday, 21 March 2019

Sarah-Jane Derby
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Derby

RE: Enhancement to the Reliability and Emergency Reserve Trader rule change draft determination

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination on the Enhancement to the Reliability and Emergency Reserve Trader (RERT) rule change request.

About ERM Power

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. 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. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. www.ermpower.com.au

General Comments

ERM Power has been an active participant in the AEMC's consultation process as part of the Enhancement to the RERT rule change. We have consistently argued that the RERT process can be improved to prevent high costs being imposed on customers for limited benefit and to improve the transparency around the costs and impacts of dispatching the RERT. The experience of the 2017-18 and the 2018-19 summers where RERT was dispatched at a high cost to consumers, almost \$52 million and \$34 million respectively, for an uncertain benefit demonstrates the clear need for reform.

In general, we consider that the AEMC's draft determination on the enhanced RERT rule change acknowledges this and has proposed, in the more preferable rule change, a series of solutions that help to address our concerns, and those of other market participants.

We consider that there are still further improvements could be made to the draft determination. In particular, we consider that a minor change to clauses 3.20.7 and 4.8.5B would enhance incentives to consumers to consume less energy when the RERT may be dispatched. We also believe that there should be limited exemptions to the 12-month 'cooling off' period for reserves moving from the market to the RERT.

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



Procurement changes

ERM Power understands the decision to extend the time allowed for AEMO to sign Long Notice RERT contracts to 12 months. This will align the Long Notice RERT procurement timeframes with timeframes under the Retailer Reliability Obligation. We consider this to be a sensible approach. AEMO is still able to discuss RERT contracting at any time outside this 12-month window, which provides it with the flexibility to investigate potential supply options.

We agree with the AEMC's stance that AEMO may only procure RERT where a breach of the Reliability Standard has been identified through either a Low Reserve Condition in the Medium Term Projected Assessment of System Adequacy (MT-PASA) or a Lack of Reserve (LOR) 2 or 3 condition in the Pre-dispatch (PD-PASA) or Short Term (ST-PASA) windows. Furthermore, AEMO is limited to procuring sufficient reserves to only that required to return reliability levels to within the Reliability Standard.

We also support the requirement that the cost of RERT contracting be linked to the estimated load shedding value of customer reliability (VCR) which is defined as "the average value of customer reliability (expressed in \$/MWh) determined by AEMO associated with loads AEMO reasonably expects would likely have been shed had AEMO not dispatched or activated reserves". We believe that this is an improvement for customers as a whole as it limits the ability for reliability to be provided at any costs. The Australian Energy Regulator's (AER) work on determining VCR demonstrates that while some customers do indeed place a high value on reliability, there are limitations. ERM Power commends the AEMC on recognising this as part of this draft determination.

Transparency measures

ERM Power supports the AEMC's proposed draft rules to increase transparency around the RERT and its dispatch. The draft determination puts in place specific reporting obligations regarding RERT availability, pre-activation and activation costs and volumes contracted.

The draft determination proposes that within 5 days AEMO must also report on the total estimated payments and the total estimated volumes (MWh) of RERT dispatched. ERM Power considers that this approach would provide only an aggregate view of the RERT. Instead, we recommend that AEMO also be compelled to report on the MW dispatched per dispatch interval. This would provide greater transparency on the impacts of RERT over the entire period while still providing the underlying data behind a total MWh volume.

In addition to the current final annual RERT report, the draft determination introduces the requirement for a quarterly report, if necessary, to provide forward- and backward-looking information. The forward-looking information is to include indicative availability costs, expected activation and pre-activation costs, and detailed analysis of any procurement of reserves, while the backward-looking detail is to detail updated emergency reserve costs and volumes, the details of forecasts that indicated RERT intervention was required, and the impact of RERT dispatch on market reliability and power system security. This represents a significant increase to the current level of detail AEMO is required to provide in its annual RERT reports.

ERM Power is pleased to see these increased reporting requirements; in our submission to the consultation paper on this rule change, we called for similar requirements. We consider that this information is critical in order to allow for an improved understanding of the costs involved with procuring RERT reserves, and better explaining the rationale behind dispatching them if the need arises.

ERM Power is tentatively supportive of the proposed 'cooling-off' period that would require RERT providers not to have dispatched in the market during the preceding 12 months. We consider that this is important to encourage participants to be active in the market wherever possible. Imposing this restriction would prevent potential RERT providers from arbitraging based on expected returns from the RERT against energy market revenues. However, we believe that there are some scenarios where it may be sensible to allow for participation in the RERT despite having been active in the market over the preceding 12 months.



One possible situation is where a generating unit has signalled its intent to exit the market through the 3-year notification of closure requirement. In the event that AEMO projects shortfalls following the plant's closure due to unforecast events such as the failure of major transmission lines or multiple generator failure, then it would be reasonable to allow the closed plant to provide RERT services at AEMO's request for a limited period of time. We consider that this would be in the long-term interests of consumers and would not go against the intent of the generator notice of closure rule change or this draft determination.

Cost recovery

The draft determination proposes a shift in the cost-recovery methodology for the RERT, which we consider would be a positive step to ensure that consumers who reduce load during a RERT pre-activation or activation period reduce their cost exposure. It also provides an added incentive for these customers to do so in the future and would complement existing and future demand response activities.

However, we are concerned that the clauses 3.20.7 and 4.8.5B in the Rules do not currently require AEMO to notify the Market that RERT pre-activation has occurred. We consider that the incentives for consumers to reduce consumption during time of RERT activation would be strengthened by improving the linkages between clauses 3.20.7 and 4.8.5B to require AEMO to inform the Market when RERT enters its pre-activation phase.

Conclusion

ERM Power considers that the AEMC's draft determination on the Enhancement to the RERT rule change proposes a number of sensible adjustments to the rules governing the RERT. We believe that these changes will help to ensure that the use of RERT is better justified and more transparently communicated with the Market. We have suggested several minor improvements that we consider will further support the rationale behind the draft determination, which we encourage the AEMC to adopt in the final determination.

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

Yours sincerely,

[signed]

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