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Wednesday, 16 October 2019

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

Dear Mr Pierce

RE: ERC0278 – System Restart Services Standards and Testing

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) Consultation Paper (the Paper) to the rule change requests submitted by the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER) for the System Restart Services Standards and Testing.

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

As discussed by the Commission in the Paper, the provision of system restart ancillary services (SRAS) is a critical pillar in the overall provision of power system resilience in the National Electricity Market (NEM). SRAS allow the Market to recover from a significant high impact low probability event where large parts of the power system have collapsed to a 'black system' condition. Whilst SRAS are only expected to be used on that 'rare' occasion, a series of unforeseen events resulting in a 'black system' could occur at any time, the ongoing supply of effective system restart services is therefore a critical component of NEM.

ERM power supports the rule changes as proposed by the AER, we also support most of the intent of the rule changes proposed by AEMO. In particular we support the need for system restart support services to facilitate the recovery of the power system as a whole where it can be demonstrated that the contracted restart service by itself is insufficient to achieve this end. There are however other areas of the AEMO proposed rule change which we do not support and we offer comments on these areas as follows.

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



Assessment framework

ERM Power supports the proposed assessment framework as detailed by the Commission in section 4 of the Paper. The NEM is transitioning at a rapid pace from a somewhat legacy centrally designed landscape where consumers were supplied by a small number of dispatchable large capacity and smaller capacity support generators to manage demand variability or large generator failure, to a market containing a large number of small generators, distributed energy resources and the evolution of the prosumer where large amounts of this capacity is unable to be accurately dispatched by the market operator. We believe that any changes to the design of the rules surrounding the framework for the procurement of system restart services must not only ensure the flexibility to be able to respond to changing market conditions in the future, but also contain a robust governance arrangement so that consumers, participants and other stakeholders are confident that the procurement process acts in the best interest of consumers.

In addition, in considering the proposed rule changes, the Commission must ensure that the economic benefits derived by consumers are greater than any additional implementation and ongoing costs arising from the proposed changes compared to the current procurement framework. This will require a large level of detailed assessment by the Commission to determine the costs to consumers of both the existing framework and the proposed changes if the proposed rule changes are to be approved in a number of areas.

Expansion of the definition of SRAS

ERM Power supports AEMO's proposed change to amend the definition of SRAS to allow the contracting of an electrical energy supply facility, as opposed to a generating unit, to deliver electricity to either its connection point or a point in the network, without taking supply from any part of the power system following disconnection, from which sufficient supply can be made available to other generating units to enable their efficient restart. In considering the required SRAS outcome, we believe it is critical that any contracted electrical energy supply facility is of sufficient size to enable the timely restart of other generating units. Under any 'black system' condition a critical outcome of any system restart plan is to ensure that re-establishment of supply of electrical energy to generating unit auxiliaries occurs as quickly as possible. Delays in re-establishing this supply could have significant impact where the timely return to service of generating units is disrupted and as a result delayed for days resulting in ongoing interruptions to supply reliability for consumers.

We also support AEMO's proposed rule change to enable the contracting of system restart support services (SRSS) to facilitate the restart of the power system where it is demonstrated that this leads to the most efficient outcome for consumers. We are however concerned by AEMO's proposal that SRSS be prescribed in AEMO's SRAS Guideline as opposed to the National Electricity Rules (the rules). We believe that System Restart Support Services or SRSS would be better prescribed as a separate service within the Rules with guidance provided by the Reliability Panel in the System Restart Standard regarding the types of services and their economic procurement.

On the question of procurement of SRAS or SRSS from network service providers (NSP's), provided that provision of these services is demonstrated to be ring fenced and receive no cross subsidy from the NSP's regulated revenue, we would have no objection to supply of these services by a NSP. Any rule changes proposed in this area must ensure that consumers do not pay twice for the provision of an identical service, where the NSP can provide a service using existing regulated network infrastructure, then the service should be provided free of charge as part of the NSP's agreed system restart plan.

We note one area of AEMO's proposed SRAS and SRSS capabilities that we believe warrants change.

- Energise sections of transmission network so as energise auxiliaries of sufficient **non-black start** generating systems (to collectively provide a minimum restart path to load restoration).

We believe that reference to 'non-black start' should be removed from the proposed capability to ensure that contracted SRAS facilities are capable of restoring auxiliary supplies to any generating system.



Changes to the SRAS procurement framework

ERM Power does not support AEMO's proposed change to the SRAS procurement framework. We believe that the reasons behind the decision to implement the current SRAS Procurement Objective in 2015 remain relevant to the current and future NEM. The SRAS procurement objective includes the requirement for the Reliability Panel, not AEMO, to consider the National Electricity Objective in consulting on and developing the system restart standard (SRS). We believe that the Reliability Panel remains best placed to consider the long term interests of consumers which will include the assessment of the required economic trade-offs. We do not believe that a market operator is better placed to consider the assessment regarding this. The market operator role should remain solely focused on procuring SRAS, and in the future potentially SRSS, that matches the requirements of the SRS, at the lowest cost possible.

AEMO has argued that the Rules themselves inhibit AEMO's ability to procure the most efficient SRAS over the long term through various mechanisms, it is unclear to ERM Power if this is the case or if AEMO's interpretation of the Rules is leading to artificial barriers in AEMO's view of what would constitute efficient long term SRAS procurement. By way of example, it is AEMO internal processes that determine the length of any SRAS contract and the number of parties to be contracted, not the Rules or the SRS. AEMO also determine the significant information provision and technical requirements for any potential new SRAS provider that must be completed before provision of any SRAS by the new provider is considered by AEMO. If AEMO is concerned about the lack of new entrants, longer contract duration may allow the recovery of capital expenditure associated with the provision of SRAS such that the yearly costs for a new entrant are lower than an existing supplier.

Changes to testing of SRAS

ERM Power supports some of AEMO's proposed changes in the area of SRAS testing. AEMO has stated that due to ongoing changes in the power system they believe extended restart path testing needs to be undertaken. AEMO would have the sole discretion under the Rules to determine the extent of any testing regime including participants mandated to participate. AEMO have indicated that the benefits and potential costs of their proposed extended testing are difficult to quantify, but believe the benefits to the power system as a whole outweighs the potential significant costs imposed on participants, some of which will not be SRAS or potentially SRSS providers. Whilst ERM Power accepts that due to the ongoing transition of the power system, extended testing of possible restart paths may be beneficial, we reject the proposal that participants who are not SRAS or potentially SRSS providers receive no compensation for participating in the tests.

In the rule change request, AEMO have proposed that NSP's be excluded from the market impact component of regulatory incentive schemes associated with any SRAS testing outages and that NSP's be able to recover their efficient costs of extended network testing through prescribed transmission services. Given that the extended testing would be conducted at the same time as testing of contracted SRAS, contracted SRAS and potentially SRSS providers would receive payment in accordance with the payment schedule in the SRAS/SRSS contract for participating in the test. We believe that it is inconsistent for AEMO to then propose that other participants mandated to participate in the test receive no compensation towards what may be significant costs imposed on a participant by AEMO's proposed mandatory participation.

We also reject AEMO's assertion that the proposed extended SRAS testing is in any way similar to the requirements of clause 5.7.6 - Tests of generating units requiring changes to normal operation. In the case of 5.7.6, generators must conduct a test under clause 5.7.6 at the next scheduled outage of the relevant generating unit and in any event within 9 months of the request at a time as determined by the generator. Clause 5.7.6 allows the generator to determine the best timing for any test so as to minimise overall cost. In the case of the proposed extended SRAS test, the participant would be mandated to participate in the test at a time chosen by AEMO.



As AEMO as part of their rule change request has provided no specific details as to the extent of extended SRAS testing, both in term of the extended testing locations, what transmission infrastructure will be required to be removed from service to facilitate the tests and the actual requirements to be demonstrated during the testing, it is difficult for non-contracted participants to estimate the cost impact that the proposed testing regime will impose. We believe that the AEMC needs to consider that proposed testing regime may have a significant impact on spot prices due to the impact of multiple transmission lines being out of service simultaneously to facilitate the proposed test. ERM Power would be happy to discuss the potential range of costs privately with the Commission under different testing scenarios, but note that these costs could be significant, particularly for smaller market participants.

Changes to generator performance standards

ERM Power supports AEMO proposed change to require new generating systems to provide at least one SRSS as part of their agreed generator performance standards. We accept AEMO's stated concern that as synchronous generator retirement occurs, provision of the necessary power system services to maintain the power system in a secure operating state or restart the power system following a 'black system' event will diminish and the proposed additional generator performance standard is required to ensure the ongoing secure operation of the power system into the future.

We have concerns with AEMO's proposed rule change where an existing generator which currently does not provide any of the potential SRSS under their approved generator performance standard could be required to meet the proposed new generator performance standard following any plant upgrades where the requirements of clause 5.3.9 - Procedure to be followed by a Generator proposing to alter a generating system is deemed to be activated. We request that the Commission provide further clarification regarding this in the Draft and Final Determinations.

Roles and obligations of participants in relation to SRAS

ERM Power supports the rule changes in the area of obligations of participants in relation to SRAS as submitted. We believe that improvements to the clarity and guidance regarding the roles of different participants as set out by the AER in the SRAS frameworks would be of benefit. We do not believe that a review of the Rules associated with the role and function of Local Black Start Plans (LBSP) is required at this time, neither AEMO nor the AER has raised any concerns with regards to the performance of generators in meeting the requirements of their agreed LBSP's in their rule change requests.

Information provision and communication protocols

ERM Power supports the rule changes as proposed by the AER in the area of Information provision and communication protocols. We believe when implemented the proposed rule changes will as set out by the AER in their rule change request *'improve the clarity around responsibilities for communication while also requiring the use of written communication protocols which clearly set out the timing of and manner in which information will be exchanged between parties, both in preparation for, and during, a major supply disruption'*

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

Yours sincerely

[signed]

David Guiver

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