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Thursday, 11 February 2021

Mr Christiaan Zuur
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Zurr

RE: ERC0304 - Enhancing Operational Resilience in Relation to Indistinct Events - Consultation Paper

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) Enhancing Operational Resilience in Relation to Indistinct Events Consultation Paper (the Paper).

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fueled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load¹. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

<http://www.ermpower.com.au>

<https://www.shell.com.au/business-customers/shell-energy-australia.html>

General Comments

ERM Power is supportive of the proposed rule change, however, it is difficult to offer full support due to the lack of detail regarding the actual wording of the draft rules. We recommend that in further processing this rule change request, the Commission at the next stage issue a directions paper which set out the full details of the draft rule changes for consultation.

ERM Power is supportive of the proposed protected operations framework, however, we believe the framework requires a stronger governance framework than that proposed in the rule change request and the Paper. We consider that given the degree of flexibility that is proposed to be afforded to AEMO in operating the National Electricity Market under a declared protected operations period, independent review of AEMO's actions during a period of protected operations is warranted. Whilst the Paper proposes that the Reliability Panel would include details of any protected operations in its Annual Market Performance Review, what has been proposed falls short of a detailed independent review of AEMO's actions. To provide consumers and market participant's confidence in AEMO's actions during a period of protected operations, we recommend that the Rules be amended to provide an obligation on the Australian Energy Regulator to independently review all periods of protected operations.

We note that unlike outcomes for a non-credible or protected contingency event, the rule change request proposes that for an indistinct contingency event, including declared periods of protected operations, the system must remain in a secure operating state at all times.

¹ Based on ERM Power analysis of latest published information.



In addition, load shedding, including under frequency load shedding or load shedding as a result of the action of network service provider or AEMO pre-agreed protection schemes, or network support and control ancillary services is not allowed. We believe these are unnecessary restrictive outcomes that will increase costs for consumers. We consider that similar to outcomes post a non-credible or protected contingency event, the power system should be required to maintain at least a satisfactory operating state and return to a secure operating state within a period of 30 minutes. Similarly, where it is economic to do so, load shedding should be an allowed action under a period of protected operation to ensure the power system maintains a satisfactory operating state post an indistinct contingency event or to restore the power system to a secure operating state within 30 minutes.

Responses to the specific questions raised by the AEMC in the Paper have been provided in the attached response template.

Please contact Ron Logan at rlogan@ermpower.com.au or 0427 002 956 if you would like to discuss our submission further.

Yours sincerely,

[signed]

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ERC0304 Enhancing operational resilience in relation to indistinct events

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper. Stakeholders are also encouraged to provide evidence to support claims where possible.

SUBMITTER DETAILS

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CHAPTER 3 — ASSESSMENT FRAMEWORK

Question 1 — Assessment principles

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| 1. Do stakeholders support using the proposed assessment framework? | ERM Power supports the assessment principles as listed. With regards to effective governance, if a rule is to be made then we consider the Rule must include adequate independent review of AEMO's actions. We consider this should include specific provisions for a annual review by the Australian Energy Regulator of all actions taken by AEMO under periods of the proposed protected operations framework. |
| 2. Are there any other principles that the Commission should consider when assessing the proposed rule? | |

CHAPTER 4 — DEFINITION OF INDISTINCT EVENTS

Question 2 — Defining indistinct events

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| <p>1. Is it necessary to create a definition of indistinct events in the rules?</p> | <p>We believe for clarity a definition for an indistinct contingency event should be provided in clause 4.2.3. This definition should provide clear discrimination between an indistinct contingency event, a credible contingency event, a non-credible contingency event and a protected event.</p> |
| <p>2. Can stakeholders suggest any changes to the proposed definition to:</p> <ul style="list-style-type: none"> • better describe indistinct events? • delineate between indistinct events and contingency events? | <p>The definition as set out in section 4.3 of the consultation paper is reasonable.</p> |

CHAPTER 5 — PROPOSED ARRANGEMENTS TO DETERMINE AND MANAGE INDISTINCT EVENTS

Question 3 — Proposed framework for managing standing indistinct events

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| <p>1. Is it appropriate to deal with standing indistinct events using the existing protected events framework, or do standing indistinct events need to be managed using a new, separate process?</p> | <p>Where an indistinct contingency event can be adequately defined by AEMO, then classification as a standing indistinct contingency event should be managed in accordance with the current protected contingency event framework. The Rules framework should require that AEMO <u>must</u> apply to the Reliability Panel for declaration of a standing indistinct contingency event as a protected contingency event within a defined time period, once AEMO is aware of the probability of such an event occurring. This application would require AEMO to submit its proposed management plan for the standing indistinct contingency event. The Rules must also allow for notification by a participant to AEMO and the Reliability Panel of a potential standing indistinct contingency event and a requirement for AEMO to review and consider this notification.</p> <p>We do not agree with AEMO's assessment that the existing protected contingency event framework is challenging and a barrier to justifying the declaration of a protected contingency event. We are concerned that AEMO's view arises from a obligation for AEMO to assess for potential higher risk non-credible contingency events and then submit their management plan to the Reliability Panel for economic assessment and approval as a protected contingency event. We believe the Reliability Panel is best placed to make this assessment on behalf of the NEM as opposed to AEMO.</p> |
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| 2. If a new process, what should this look like? | |
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Question 4 — Proposed protected operations framework for managing condition-dependent indistinct events

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| 1. Do you support the proposed approach to protected operations? | <p>ERM Power is supportive of the proposed new protected operations framework. However, this support is based on the implementation of adequate transparency, reporting and governance arrangements which in our view must include independent review of all AEMO actions whenever this framework is actioned by AEMO. We believe this should be clearly defined as a Rules obligation on the Australian Energy Regulator.</p> <p>In addition, we note the consultation paper proposes that under the proposed protected operations framework AEMO would not be able to consider under frequency load shedding or what could be special protection scheme load shedding as part of the proposed framework in its management plan. In addition, we consider that the proposed framework should require AEMO to maintain the power system in a satisfactory operating state following an indistinct contingency event and return the power system to a secure operating state within 30 minutes, this should allow for the use of load shedding if required. The alternative to remove the potential for temporary load shedding to manage power system security could significantly increase costs for the NEM and consumers above that which is economically efficient.</p> |
| 2. Is the proposed protected operations framework likely to be effective in managing indistinct risks at an appropriate cost? | Absent additional details regarding the proposed framework ERM Power is unable to answer this question. |

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| <p>3. Should the Rules specify a process that AEMO must follow to determine whether an event should be managed using the ad-hoc approach? If so, what should that process be?</p> | <p>We support the requirement for the Rules to clearly set out the obligations that AEMO must follow for the declaration of a defined period of protected operations. The actions which AEMO may take during a period of protected operations should be clearly defined in the Rules or set by an unambiguous Standard developed and consulted on in accordance with the rules consultation procedure by the Reliability Panel.</p> <p>The process could be set out similar to the requirements of clause 4.3.2A - Criteria for re-classifying contingency events and clause 4.8.4 - Declaration of conditions. Given the level of detail in the Rules that would be appropriate for the adoption of such a flexible approach for AEMO's management of the NEM and the costs that could be incurred by participants and consumers from this proposal, we would encourage the Commission to set up a technical working group to consider the actual requirements to be included in the Rules.</p> |
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Question 5 — General questions on the proposed framework for managing indistinct events

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| <p>1. Can stakeholders identify any significant emerging risks to power system security that would not be captured under the proposed framework?</p> | <p>We were unable to identify any additional emerging risks.</p> |
| <p>2. Does the proposed framework provide AEMO with sufficient powers to manage protected events and protected operations once they are declared?</p> | <p>As the consultation paper and the rule change request only sets out what is in effect a conceptual framework ERM Power awaits further detail regarding the final proposed framework. Given this we recommend the Commission issue a directions paper with additional details regarding the actual framework including draft rule changes for consideration by stakeholders before issue of a Draft Determination.</p> |

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| <p>3. Can stakeholders identify any duplication or overlap between the proposed framework and the existing credible contingency or protected events framework that may increase the complexity and/or cost of managing contingency events or indistinct events without delivering material security benefits?</p> | <p>ERM Power would be concerned if AEMO moved to favour the proposed operations framework in preference to prioritising use of the existing reclassification of credible contingency and protected contingency event provisions that already exist in the rules. We believe these should remain the first priority for use by AEMO and the proposed operations framework should only be used as a last resort.</p> |
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Question 6 — Consultation arrangements for protected operation and reclassification

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| <p>1. Are the proposed consultation arrangements sufficient to provide stakeholders with confidence in AEMO's use of protected operations and reclassification powers?</p> | <p>We do not support the proposed consultation arrangements as set out in the consultation paper. ERM powers preference is that all major provisions regarding the proposed framework should where possible be set out in the Rules or via a Reliability Panel standard and/or guideline with only minor provisions subject to an AEMO consultation process. Historically, our observation is that many AEMO consultation processes have been ineffective with concerns raised and comments provided by consumers and participants largely ignored. Whilst there have been examples of effective AEMO consultation these are infrequent and primarily start with AEMO undertaking early consultation with participants in developing the issue to be consulted on prior to issuing the Stage 1 Issues Paper. Stakeholder views, in particular those from consumers who will ultimately incur the additional costs associated with these proposed new provisions, should receive due consideration in any consultation process.</p> |
| <p>2. Are the consultation obligations imposed on AEMO proportionate to the benefits?</p> | <p>The consultation obligations as proposed will in our view be ineffective. Improved reporting requirements including independent review of all ad-hoc protected operation events by the Australian Energy regulator is in our view required to provide the necessary confidence to consumers and market participants regarding the governance framework for the proposed rule change.</p> |

Question 7 — Options for implementation

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| <p>1. To implement the proposed rule, should the AEMC follow a parallel process (Option A) or change the definition of contingency event (Option B)?</p> | <p>ERM Power supports Option A. We do not support any proposal to amend the current well understood and internationally used contingency classification system.</p> <p>We are also concerned that amendments to the current contingency classification system could be used by AEMO to inflate recording of unserved energy as it relates to the reliability standard. The rules should be clear that the occurrence of an indistinct contingency event falls under the category of a non-credible contingency event for the calculation of unserved energy.</p> |
| <p>2. Are the governance and accountability requirements under Option B appropriate?</p> | <p>We don't believe it would be possible to provide an appropriate transparency, accountability and governance framework under Option B.</p> |

CHAPTER 6 — GOVERNANCE, RESPONSIBILITIES AND ENFORCEMENT

Question 8 — AEMO responsibilities

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| <p>1. Do stakeholders support AEMO's proposed responsibilities?</p> | <p>Provided the Rules set out an appropriate transparency, accountability and governance framework including independent review of AEMO's actions by the Australian Energy Regulator supported by appropriate standards and/or guidelines developed and consulted on by the Reliability Panel then AEMO proposed responsibilities are satisfactory.</p> |
| <p>2. Do parties consider that AEMO would have sufficient powers and accountability to efficiently and effectively manage indistinct events under the proposed rule?</p> | <p>Yes, however this is based on the suggested modification of the proposed rule change as set out in our submission.</p> |

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Question 9 — Reliability Panel responsibilities

1. Do you support the the Reliability Panel's proposed responsibilities?

Yes, however this is based on the suggested modification of the proposed rule change as set out in our submission.

Question 10 — Proposed expedited approval process

1. What is the most appropriate way for the Reliability Panel to determine whether an application to declare a proposed protected event as straightforward and non-controversial?

We recommend a framework where AEMO are required to initially consult with stakeholders regarding a request for a protected contingency event and based on the outcome from this consultation AEMO may lodge a request for an expedited protected contingency event approval.

As part of this request, AEMO would be required to advise the Reliability Panel of any objections received from stakeholders during the consultation process and how AEMO responded to any objection.

We believe the Rules should include a provision for a market participant to request a review by AEMO of a potential protected contingency event which AEMO must consider and reply to.

We recommend these requirements be included as a Rules provision.

2. Should criteria for defining whether a proposal is non-controversial be developed?

Refer answer above. Stakeholders would then be given a period of 10 business days to object to the expedited process and the reasons for their objection.

Where a stakeholder raised an objection to AEMO's request for the expedited approval of a protected contingency event, the Reliability Panel would be allowed to consider an extension to the time allowed for their review and final determination.

We recommend these requirements be set out as a rules provision

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| <p>3. Is the proposed approach likely to be an effective way of streamlining the protected events approval process?</p> | <p>Whilst we don't see any issue with the current protected contingency event approval process other than AEMO's reluctance to seek approval for protected contingency events from an external authority, i.e. the Reliability Panel, we believe the expedited process would be an improvement.</p> |
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Question 11 — Role of NSPs and the GPSR in managing indistinct events

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| <p>1. What responsibility should AEMO have for identifying potential condition-dependent indistinct events in the GPSR (if implemented), and what responsibility should each NSP have? For example, how should responsibility be apportioned for network configuration issues, such as protection settings, reclose arrangements and sophisticated tripping?</p> | <p>In considering the options AEMO should take we agree that AEMO should be able to take action to prevent the cascading failure of the power system following an indistinct contingency event. This would require that AEMO maintains the power system in at least a satisfactory operating state and returns the power system to a secure operating state within 30 minutes of an indistinct contingency event. However, we question the economic efficiency of a requirement to maintain a secure operating state at all times following an indistinct contingency event.</p> <p>We agree that the GPSR should be used to identify potential condition-dependent indistinct contingency events and AEMO should respond to any identified potential condition by applying for a declared protection or standing indistinct contingency event to the Reliability Panel. We believe the Reliability Panel is best placed to consider the technical and economic trade-off with regards to a proposed management plan.</p> <p>The consultation paper contains little detail regarding the role of network service providers with regards to responsibility for the management of indistinct contingency events. We recommend additional detail be provided in a directions paper regarding this for review and comment by stakeholders prior to release of the draft determination.</p> |
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| <p>2. If an NSP considers outcomes from the GPSR and takes action to improve system security as a result, can and should these actions count towards the NSP's network capability component under the service target performance incentive scheme (STPIS)?</p> | <p>Yes</p> |
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CHAPTER 7 — COSTS AND BENEFITS

Question 12 — Proposed approach to cost minimisation

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| <p>1. Do you support the proposed cost-minimisation principle?</p> | <p>ERM Power in general supports a cost-minimisation principle, however, it is unclear that the framework proposed in the consultation paper will achieve the required outcome. We consider most provisions for the framework should be set out in the Rules or by the development of standards and guidelines by the Reliability Panel. The requirement for AEMO to develop and consult on guidelines should be minimised wherever possible.</p> |
| <p>2. Does the proposed framework contain adequate mechanisms to ensure standing, condition-dependent and ad-hoc indistinct events are effectively managed at least cost?</p> | <p>The proposed framework suggests the management plan for an indistinct contingency event avoid load shedding. We believe the commission should be guided by consumer's view in this area as limited duration load shedding may be a preferred and economically efficient option. In addition, as indicated earlier, the power system should be maintained in a satisfactory operating state and returned to a secure operating state within 30 minutes of an indistinct contingency event. We question the economic efficiency of a requirement to maintain the power system in a secure state at all times following an indistinct contingency event</p> |

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| <p>3. Is the proposed approach to cost minimisation, including reliability panel oversight, the most effective framework for assessing proposed protected operation periods?</p> | <p>We support the Reliability Panel oversight for assessing and approving proposed protection operation periods including the development of and consultation on standards and guidelines to be applied by AEMO for ad-hoc protected operation periods.</p> |
| <p>4. Are there other more efficient and effective frameworks to minimise costs or assess protected operation periods?</p> | |
| <p>5. Is the proposed approach to cost minimisation sufficiently transparent to allow stakeholders to assess whether AEMO is efficiently managing indistinct events?</p> | <p>We recommend independent review by the Australian Energy Regulator as a Rules obligation of all AEMO actions during a declared protected operation period.</p> |