



19 September 2017

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

Dear Mr Pierce

RE: ERC0226 Declaration of Lack of Reserve Conditions – Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) Rule Change Request – Declaration of Lack of Reserve Conditions – Consultation Paper (the Paper).

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 does not support the proposed rule change. We believe the Australian Energy Market Operator (AEMO) is already provided with sufficient ability to implement all the changes proposed in their rule change request under:

- Clause 3.7 Projected Assessment of System Adequacy (PASA),
- Clause 3.8.20 Pre-Dispatch Schedule,
- Clause 3.9.3.D AEMO's Reliability Standards Implementation Guidelines (RSIG) and
- Clauses 4.2.3 Credible and Non-Credible Contingency Events and Protected Events, 4.2.3A Re-Classifying Contingency Events and 4.2.3B Criteria for Re-Classifying Contingency Events of the National Electricity Rules (the Rules)

We therefore consider that a change to the current Clause 4.8.4 Declaration of Conditions of the Rules is unnecessary and unwarranted.

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

The proposed rule change

ERM Power supports the introduction of probabilistic modelling into the Short Term PASA and Pre-Dispatch process in a transparent manner. The proposed rule change fails to provide the level of transparency expected by market participants and that which is currently provided by the existing requirements of the Rules. For these reasons, we oppose AEMO's proposed rule change.

In their rule change request, AEMO details a number of major factors which in its view are leading to deteriorations in short-term power system condition at times. These include:

- short-term grid demand forecast error, particularly during extreme hot weather, which is in turn affected by small errors in weather forecasts,
- short-term large-scale wind and large-scale solar generation forecast error,
- widespread partial availability reductions in thermal generation during stressful ambient conditions, and
- variations in network constraints.

In considering the impact these factors have on the secure and reliable operation of the National Electricity Market (NEM), the Commission should consider that AEMO is currently responsible for the calculation of the first two and last factors and responsible for determining how the third factor is implemented in their PASA and Pre-Dispatch processes. AEMO currently has within the Rules the ability to introduce probabilistically determined inputs into the Short Term PASA and Pre-Dispatch processes via a transparent review of the RSIG.

In August 2017, AEMO completed a review of the RSIG. This review introduced into the Medium Term PASA process the same probabilistic modelling inputs to that as detailed in the proposed rule change for the Short Term PASA and Pre-Dispatch processes. We are unsure as to why AEMO would seek to alter the Rules to introduce the same probabilistic modelling inputs into the Short Term PASA and Pre-Dispatch processes as that introduced into the Medium Term PASA process via the recent RSIG review. We believe that AEMO should promptly commence a further and expedited review of the RSIG to outline to participants the proposed changes to introduce transparent probabilistic modelling inputs into the Short Term PASA and Pre-Dispatch processes. Given the positive industry support for the process changes to the Medium Term PASA and the similarity of the changes we would expect that industry would also support changes to introduce probabilistic modelling inputs into the Short Term PASA and Pre-Dispatch processes.

The current provisions of *Clause 4.8.4 – Declaration of Conditions* are highly transparent and well understood by participants. AEMO has the ability to change both the value of “capacity reserves” and “contingency capacity reserves” at short notice in accordance with Clauses 4.2.3, 4.2.3A and 4.2.3B in a transparent manner via a Market Notice. For instance, following the upgrade of the Heywood interconnector to 600 MW in the Victoria to South Australia direction, it is routine during periods of high flow towards South Australia for AEMO to issue a Market Notice to indicate the “contingency capacity reserves” for South Australia has been increased to 350 MW to represent the largest credible contingency event, being the loss of one circuit of the Heywood interconnector. Participants support this transparent and prudent change by AEMO to the “contingency capacity reserves” for South Australia. We are unsure as to why in their rule change request AEMO indicated that this was currently not the case.²

We believe the concept of “credible contingencies” as contained within the Rules is also a transparent measure which is well understood by participants. The proposed rule change would significantly reduce the transparency of this area of the Rules.

² AEMO Rule Change Request – Lack of Reserve Declaration Page 5 – “AEMO does not generally consider the loss of other transmission line elements as contingencies for the purpose of LOR declaration”



Conclusion

ERM Power opposes the rule change as proposed by AEMO. The proposed rule change fails to provide the level of transparency expected by market participants and that which is currently provided by the existing requirements of the Rules. We believe that AEMO should promptly commence a further and expedited review of the RSIG detailing to participants the proposed changes to introduce transparent probabilistic modelling inputs into the Short Term PASA and Pre-Dispatch processes. Given the positive industry support for the process changes to the Medium Term PASA and the similarity of the changes we would expect that industry would also support changes to introduce probabilistic modelling inputs into the Short Term PASA and Pre-Dispatch processes.

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

Yours sincerely,

[signed]

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