



12 September 2017

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

Dear Mr Pierce

RE: ERC0224 Pricing During Market Suspension – Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) Rule Change Request – Pricing During Market Suspension – 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 supports the rule changes for pricing during market suspension as proposed by AEMO. In the event of a market suspension the current rules require AEMO to continually monitor, analyse and determine which of the four market suspension pricing methodologies should be implemented for the current Dispatch Interval and future Dispatch and Trading Intervals. AEMO must also make adjustments as required during a period where the power system and the market may be operating under stress conditions.

This situation has the potential to lead to uncertainty for participants' decision-making with regard to unit commitment, de-commitment and bid pricing as the dispatch pricing that will apply for future dispatch conditions may vary significantly.

AEMO's proposed changes simplify the process and deliver a high degree of certainty as to what the pricing outcomes for generation dispatch will be: either the market will continue to price normally via the National Electricity Market Dispatch Engine (NEMDE) or pricing will be in accordance with the current Market Suspension Pricing Schedule. It also increases the level of transparency to participants with regards to AEMO decision-making as the market can either continue to price normally or cannot.

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

The proposed changes also allow AEMO to revert to normal NEMDE pricing outcomes when it is possible to do so, even if the market suspension remains in place. This proposed change allows the market to return to efficient price signals and optimum generation dispatch outcomes as soon as reasonably achievable. This has the potential to remove the requirement for AEMO intervention in the form of a Clause 4.8.9 Direction or Instruction.

ERM Power does not support the retention of the use of a current pre-dispatch schedule, for pricing during a market suspension period, even for a short timeframe, as this requires a continuous subjective assessment by AEMO as to the current validity of what is invariably an already out-of-date pricing and dispatch schedule. Even under average market conditions it is routine to observe meaningful changes in the dispatch and pricing outcomes between 5 minute pre-dispatch schedule revisions as AEMO demand and generation forecasts vary. At times of higher demand conditions these outcomes can vary significantly between 5 minute pre-dispatch revisions. We believe there is little, if any, potential for the current pre-dispatch schedule to remain valid for any more than the current and a maximum of two additional dispatch intervals. Given this, we believe market efficiency is best served by removing this choice from AEMO's decision making requirements.

We support the changes to the inter-regional price scaling provisions as set out in AEMO's proposed rule change as it results in the alignment with other inter-regional price scaling provisions in the Rules. It also removes the current outcome where in effect an ex-post price scaling for regions with flow towards the region under market suspension occurs as the price scaling is based on a Trading Interval rather than a Dispatch Interval calculation. The current provisions lead to a level of uncertainty with regards to final pricing outcomes for regions not subject to market suspension.

We also support the proposed change that clarifies that dispatch prices during market suspension would be subject to the administered price provisions set out in clause 3.14.2 of the NER – specifically, that the administered price cap (APC) would apply in instances where spot prices before and/or following the declaration of market suspension exceed the cumulative price threshold (CPT). This ensures that the risk management provisions of clause 3.14.12 continue to prevail even when a region is subject to market suspension.

Conclusion

ERM Power supports the rule changes as proposed by AEMO and supports their implementation as soon as reasonably achievable.

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

Yours sincerely,

[signed]

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Executive General Manager - Trading

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