



16 February 2015

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

Dear Mr Pierce

RE: DRAFT DETERMINATION NATIONAL ELECTRICITY AMENDMENT (SYSTEM RESTART ANCILLARY SERVICES) RULE 2014 (Reference: ERC0168)

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Commission's Draft Determination *National Electricity Amendment (System Restart Ancillary Services) Rule 2014* (Draft Determination).

About ERM Power Limited

ERM Power is a diversified Australian energy company with interests in electricity sales and generation, metering, and gas exploration. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in Australia, with operations in every state and the Australian Capital Territory. We initially focused on larger businesses but now offer our industry leading services to small businesses. We have equity interests in 497 megawatts of low emission gas-fired peaking power stations in Western Australia and Queensland, operate an electricity metering business that trades as Powermetric, and have gas exploration operations in New South Wales.

Comments on the Draft Determination

ERM Power broadly supports the positions in the Commission's Draft Determination. The draft rule changes will improve clarity in a number of areas, including, but not limited to, the specification of procurement and provision of system restart ancillary services (SRAS). Notwithstanding our support of the Draft Determination, we offer the following comments.

Selection of the electrical sub-network boundaries (Clause 3.11.8 (b))

The Commission has not proposed change to National Electricity Rules (NER) clause 3.11.8(b) regarding selection of the electrical sub-network boundaries. This means that AEMO will retain sole discretion for the selection of electrical sub-network boundaries. In our view this is too limited: the jurisdictional transmission network service providers have expertise regarding secure network operation and restoration. This could provide significant value in assisting with the determination of the electrical sub-network boundaries. We believe the NER should allow for a more formal consideration of the role of the jurisdictional transmission network service providers in determining the electrical sub-network boundaries.

ERM Power proposes that new words are added to clause 3.11.8 (b) as per the following underlined section:

AEMO, in conjunction with the relevant jurisdictional Transmission Network Service Provider, must determine the boundaries of the electrical sub-networks in accordance with the guidelines determined by the Reliability Panel under clause 8.8.3(aa)(5), and must publish a report setting out how it has complied with these guidelines.

Least cost procurement

The proposed draft rule will require AEMO to procure SRAS at *least cost*. This may not necessarily align with the optimum *net benefit* to consumers and market participants taking the objectives of the NEO into account. The least cost approach could result in acquiring very high cost services that did not provide an economic benefit. It could also mean forgoing purchase of a comparatively low cost service on the basis that the prerequisite number of services had already been contracted; this could occur even where an additional service would be of significant benefit to meeting the National Electricity Objective (NEO).

ERM Power believes there needs to be provisions within the NER to cater for determining the optimum outcome based on an assessment of net benefit. We suggest a provision requiring AEMO to report back to the Reliability Panel regarding all offers received and which offers it intends to contract and not contract. Prior to entering into SRAS contracts AEMO should be required to set out how a procurement decision maximises benefit to the NEM.

Alignment of the current SRAS tendering process with the current rule change

ERM Power is concerned about the current AEMO process for procurement of SRAS services from 1 July 2015 as this relates to the proposed new rules. If AEMO continues its current procurement process it may delay the effective implementation of the proposed rule changes to a later date than necessary. We believe that the Commission should request that AEMO take note of the proposed changes to the rules when determining current procurement, in particular, the NEM wide vs single sub region system event. In addition, AEMO should be required to ensure that the duration of any new contracts under the current procurement process should not extend past the date of introduction of the new rules to allow a timely transition to the new rules.

Please contact me or Ron Logan (0427 002 956) if you would like to discuss this submission further.

Yours sincerely,

[signed]

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