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Thursday, 16 July 2020

Katy Brady
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Brady

## RE: Compensation for market participants affected by intervention events

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's consultation paper on the compensation for market participants affected by intervention events rule change.

### 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 fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. 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 broadly supports the two rules changes that form part of this consultation paper. These rule changes stem from recommendations made by AEMO's Intervention Pricing working group which included representatives from market participants and other interested stakeholders.

The rule changes as submitted, along with the adjustments suggested by the Commission, remove gaps in the current rules with regards to the provision of compensation to directed participants and scheduled loads which currently exists in the Rules. The rule change request on scheduled loads in particular will become more important as battery energy storage systems and pumped storage expands in the NEM. It is therefore important to address issues that may arise now rather than delaying until inefficient outcomes arise as a result of the status quo.

### Question 2: Should affected participant compensation include FCAS?

ERM Power firmly believes that affected participant compensation should include frequency control ancillary services (FCAS) impacts. Amending clause 3.12.2 would provide internal consistency in the rules with regards to all areas dealing with participant compensation, noting that clause 3.15.8, which deals with "funding of

[1] Based on ERM Power analysis of latest published information.

compensation for directions", presumes that affected participant compensation is payable in relation to ancillary service directions. Further the Commission itself notes in the consultation paper:

> *"…it is also reasonable to suggest that a direction for energy is likely to result in other participants' energy dispatch targets being affected, and a direction for ancillary services is likely to result in other participants' FCAS targets being affected. Thus, it appears that clauses 3.15.8 and 3.15.10C assume that compensation is payable to and by affected participants and market customers with respect to both energy and FCAS directions."*

### Question 3: How should FCAS be included in affected participant compensation?

ERM Power supports the AEMC's proposed alternative model where FCAS would form part of an automatically calculated compensation process determined in accordance with clause 3.12.2(c)(1), in addition to including FCAS in paragraph 3.12.2 (j). ERM Power considers that this will reduce the administrative costs to the Market and result in the "fair" outcome for all market participants.

### Question 4: Should affected participant compensation be net of FCAS liabilities?

AEMO already adjusts compensation for other direct costs incurred as a result of an intervention event. Provided this can easily be calculated under the automatic compensation calculated process by AEMO then ERM Power agrees that participant compensation should be net of FCAS liabilities. FCAS liabilities can be high and are a direct cost that can be incurred due to market intervention. If this is not part of the automatic compensation process, then FCAS costs should remain available for an adjustment claim by an affected participant under clause 3.12.2(f).

### Question 5: How to determine compensation paid to scheduled loads

In our view, scheduled loads should receive compensation when affected by intervention events. This will become increasingly important should the National Electricity Market (NEM) see the expected increase in battery storage and pumped hydro generation facilities. To facilitate this, BidP in clause 3.12.2(a)(2) should be amended to avoid **both** under or over compensation of scheduled loads affected by interventions. We accept the Commission's view that BidP should be defined as the value of the lowest price band the scheduled load is dispatched from, i.e., the price band closest to the marginal price.

As part of this process, ERM Power considers that the value of QD in the compensation formula in clause 3.12.2(a)(2) of the Rules should be clarified. We accept the Commission's proposal that:

> *QD = dispatch run consumed MW – intervention pricing run consumed MW*

This means that QD is positive when a scheduled load consumes more energy in the dispatch run than in the intervention pricing run and negative when a scheduled load consumes less energy in the dispatch run than in the intervention pricing run. This would also ensure the approach to compensating scheduled loads was "two-way", consistent with the approach to affected participants.

### Question 6: Should scheduled load compensation include FCAS?

As scheduled loads can provide FCAS in addition to consuming energy (or reducing consumption), it is appropriate for the compensation formula to deal with FCAS in addition to energy. This would be consistent with the approach to directed participant compensation and the proposed approach to affected participant compensation. This would also create consistency for pumped hydro and batteries that are currently registered as both generators and market customers. We agree with the Commission's view that "…asymmetric compensation of generation and loads has the potential to result in market distortion". For these reasons ERM Power supports compensation for scheduled loads including compensation for changes to FCAS enablement targets resulting from an intervention event.

### Question 7: Should compensation for scheduled loads be net of direct costs incurred or avoided?

ERM Power considers it is reasonable to include costs avoided or incurred for scheduled loads the same as that included for affected participants in clause 3.12.2(j)(1). Where possible, all costs should be calculated by an automatic calculation process to reduce administrative costs. If it is not possible to include this as part of the automatic process, then provision should be made for the participant to lodge an adjustment claim. In the case of scheduled loads, FCAS related costs would be the most likely costs avoided or incurred.

### Question 8: Should compensation for scheduled loads be one way or two way?

Finally, ERM Power considers that compensation for scheduled loads should be two way in order to remain consistent with the approach recommended for affected participants.

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

Yours sincerely,

[signed]

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