



07 June 2018

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

Dear Mr Pierce

RE: ERC0239 Generator Three Year Notice of Closure Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper for AEMO's rule change request - Generator three year notice of closure.

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 in general supports the proposed rule change request to require scheduled and semi-scheduled generators to provide the Australian Energy Market Operator (AEMO) with the expected closure year of each of their generating units and at least three years notice of any cessation of registration of a Generator or termination of classification of a generating unit as scheduled or semi-scheduled. We believe this is best achieved by extending all the requirements of clauses 3.7.1 - Administration of PASA and 3.7.2 - Medium Term Projected Assessment of System Adequacy (PASA) from the current 2 years (24 months) to 4 years (48 months). Notwithstanding this general support, we do have some concerns with the rule change as proposed and offer some potential solutions.

Benefits of extension of Medium Term PASA to 4 years (48 months)

Extending the existing MT PASA requirements to 3 years (36 months) would meet the aims of the Finkel Review's recommendations and the rule change request as submitted. However, we believe there is a strong case to extend these requirements to 4 years in order to complement the proposed National Energy Guarantee's Procurer of Last Resort function.

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

Doubling the current MT PASA timeframe to a 4 year period, as opposed to the 3 year period as proposed in the rule change, would provide enduring benefits to the NEM compared to existing information provisions.

We consider that the recently implemented probabilistic MT PASA process, due to the ongoing nature of its weekly updating provisions offers a superior assessment of whether a reliability gap may need to be triggered under the National Energy Guarantee. This would also provide increased resolution of expected reliability for periods where the Procurer of Last Resort function may be required compared to the current yearly and potentially ad hoc updates of the ESOO process.

The MT PASA process enables regular updating of supply-side inputs and provisions for AEMO to more regularly update their forecasts of demand conditions that can be expected to prevail during the forecasting period than the current ESOO process.

This would allow participant investment decisions in either additional generating plant or demand management schemes to be better targeted to those periods where a supply vs demand balance shortfall may be indicated and also allow more efficient procurement under the Procurer of Last Resort function of the National Energy Guarantee.

From a generator's perspective, the requirement to extend data submissions to the MT PASA to 4 years as opposed to the current 2 year, or proposed 3 year period, will not be onerous. Maintenance of generating plant is planned over a long time horizon, generally in excess of ERM Power's proposed 4 year period. As such, the initial requirement to advise an additional 12 months of outage plans compared to the 3 years proposed in the rule change request represents an incremental one-off change to the data submission process and an incremental change to maintain changes in outage timing when and if this occurs. As the MT PASA submission and assessment IT systems would require a change to implement the proposed rule change's shift to 3 years, extending this to 4 years would result in minimal, if any, additional costs.

Proposed clause 2.10.1(c3)

The proposed rule allows for a closure in advance of the notice period where an event that is beyond the reasonable control of the relevant Generator has occurred and the occurrence of that event (or of an event of a similar kind) could not reasonably have been foreseen by the relevant Generator such as a major plant failure. Directors will also become aware of progressive changes in circumstance that will require them to act pursuant to other legislated obligations such as duties of directors under the Corporations Act, and state-based occupational health and safety acts and environmental protection acts. We therefore contend that the definition of unforeseen events beyond the reasonable control of the generator in Clause 2.10.1(c3) should be expanded to include responsibilities under other legislated acts.

Generator Closure Date

The rule change request proposes that the expected closure date should be no later than the expiry date of a generator's licence or authority to generate. ERM Power does not support this provision. It is not uncommon that various licences or other authorities may have an expiry date well within the technical and economic lifetime of the generator, and that the generator may form a reasonable view that these will be extended or replaced prior to their expiry. For example, this is known to occur with environmental licences and network connection agreements. To ensure that AEMO has the best information available, we believe that the closure date should not be unconditionally limited in this manner.



Conclusion

ERM Power in general supports the proposed rule change. We also believe that the NEM would be better served in the long term by amending the requirements of clauses 3.7.1 - Administration of PASA and 3.7.2 - Medium Term Projected Assessment of System Adequacy (PASA) from the current 2 years (24 months) to 4 years (48 months).

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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