



14 June 2018

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

Dear Mr Pierce

RE: ERC0225 Participant Compensation Following Market Suspension Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper for the Australian Energy Market Operator's (AEMO) rule change request - Participant compensation following market suspension.

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 was a participant on AEMO's market suspension technical working group. We support the rule change as proposed to allow claims for compensation to be considered by the Commission during periods where market suspension pricing in accordance with the Market Suspension Pricing Schedule is in effect using the same methodology as that applied for compensation during periods where an '*administered price period*' (APP) has been declared by AEMO in accordance with clause 3.14 of the National Electricity Rules (the Rules).

Current issue

Currently, during periods of market suspension, dispatch of participant's generating units, scheduled load or market network services and the applicable regional settlement price can be set by AEMO in accordance with the following methodologies

1. normal merit order dispatch and normal pricing outcomes from the National Electricity Market Dispatch Engine (NEMDE)
2. manually calculated dispatch and pricing utilising the Market Suspension Pricing Schedule

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

3. normal merit order dispatch from the NEMDE and pricing utilising the Market Suspension Pricing Schedule

Where methodology 2 or 3 is used, the settlement price paid to a participant for services provided may be less than a participant's costs as reflected in their current bids and offers for the provision of the service. In these instances, compensation may not be claimed by a participant for losses incurred in following a '*dispatch instruction*', except in circumstances where an APP has been declared and prices in the Market Suspension Pricing Schedule are subject to the '*administered price cap*'. In this case, compensation may be claimed by a participant in accordance with clause 3.14.6 of the Rules.

This outcome creates incentives for a participant with costs exceeding the settlement prices as set out in the Market Suspension Pricing Schedule to rebid their generating units, scheduled load or market network services as 'unavailable' or with reduced available capacity. Where the service(s) is still required to meet power system security or to ensure reliable supply to consumers, AEMO will then issue a clause 4.8.9 Direction to ensure the continued provision of the service(s). Where AEMO issues a clause 4.8.9 Direction, the Directed Participant, other Affected Participants and Market Customers may all be entitled to compensation payments as determined by AEMO in accordance with the Rules. This outcome would be more costly to consumers than that proposed by AEMO in the rule change proposal.

We believe the existing provisions will invariably lead to the withdrawal from the market of generating units, scheduled load or market network services whose costs exceed those as set out in the Market Suspension Pricing Schedule during periods where a market suspension has been declared and pricing in accordance with the Market Suspension Pricing Schedule is in effect. We believe this will result in an unnecessary administrative burden on the market at a time where AEMO and participant resources would be better deployed in maintaining or restoring the power system to a secure operating state and the market to stable operation.

Alternatives to proposed rule change

In the Consultation Paper, the Commission has considered a number of alternatives to the proposed rule change including the methodology used to calculate compensation in accordance with the directions framework. The Commission, in considering possible alternatives, has raised concern that the proposed process may be unnecessarily complex and could result in an unnecessary administrative burden. ERM Power does not share these concerns and does not support these proposed alternatives. We are concerned that the use of a single percentile of historical price outcomes similar to that used in the directions framework as the basis for fair compensation could disadvantage participants with higher-cost, low-output factor plant, as historically the 90th percentile would be insufficient to cover costs. This would then require additional provisions similar to the directions or APP compensation frameworks to allow reasonable cost recovery to occur which would in turn increase the complexity of the compensation process. Whilst use of a higher percentile of historical price outcomes could reduce the need for additional provisions, this would then result in over compensation being paid to lower cost plant, thereby inefficiently increasing costs to consumers.

Overall, we believe the level of compensation which should be available to participants during periods of market suspension where the Market Suspension Pricing Schedule is in effect is dependent on the specific participant, event and timing. As such, we do not believe it is possible to create a specific formula which could apply under all circumstances. For this reason we support an extension of the existing APP compensation provisions as detailed in clause 3.14.6 to apply during periods of market suspension where the Market Suspension Pricing Schedule is in effect and the settlement price paid is less than the cost of the service as reflected in a participant's current bids and offers. We believe this provides a fair outcome to participants where consumers only pay compensation which accurately reflects the costs incurred.



Conclusion

ERM Power fully supports the rule change as proposed by AEMO. The change if implemented will remove current incentives for participants to withdraw services from the market during periods of declared market suspension where the Market Suspension Estimated Pricing Schedule is in effect and prices in this Schedule are less than the provision of the service. We believe this provides a fair outcome to participants where consumers only pay compensation which accurately reflects the costs incurred.

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

Yours sincerely,

[signed]

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