



ERM Power Limited  
Level 3, 90 Collins Street  
Melbourne VIC 3000  
ABN 28 122 259 223

+61 3 9214 9333  
[ermpower.com.au](http://ermpower.com.au)

Thursday, 26 September 2019

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

Dear Mr Pierce

**RE: ERC0253 – Application of the Regional Reference Node Test to the Reliability and Emergency Reserve Trader**

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) Draft Determination to the rule change requests submitted by the Australian Energy Market Operator (the Proponent) for Application of the Regional Reference Node Test (RRN Test) to the Reliability and Emergency Reserve Trader (RERT).

**About ERM Power**

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 load<sup>1</sup>. 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. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. [www.ermpower.com.au](http://www.ermpower.com.au)

**General comments**

ERM power supports the intent of the Commission's Draft Determination to improve the clarity of clause 3.9.3(d) – RRN Test of the National Electricity Rules and to extend the RRN Test to the exercise of the RERT. This will ensure that the application of intervention pricing is applied by the Australian Energy Market Operator (AEMO) in a consistent, predictable and transparent manner. We do however have some concerns with the actual wording of the draft rule as it applies to the provision of market ancillary services and the Commission's decision to only apply intervention pricing for what the Commission refers to as 'a direction for a market traded commodity'.

**Wording of the draft rule**

ERM Power has concerns with the wording and therefore the potential application of the proposed new rule 3.9.3(d)(2)(iv). Our concerns relate to the use of the word 'located' in the draft rule related to the provision of market ancillary services.

*where a network constraint or other constraint is binding, market ancillary services that are only capable of being provided by any ancillary service generating unit located in the part of the region that includes the regional reference node; and*

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<sup>1</sup> Based on ERM Power analysis of latest published financial information.



It is possible that due to AEMO's real time N-1 operation of the transmission network, that in most circumstances, a generating unit that is located behind a network constraint, which may be constrained from a post contingency event analysis perspective for the supply of active power output, may still be able to supply market ancillary services to that area of the network which includes the regional reference node even where its physical location is not within that part of the region which includes the regional reference node.

We suggest the following amendment to the wording of the draft rule

*where a network constraint or other constraint is binding, market ancillary services that are only capable of being provided by any ancillary service generating unit ~~located~~ capable of the supply of market ancillary services in the part of the region that includes the regional reference node; and*

This will ensure that where an ancillary service generating unit which is capable of the supply of market ancillary services is Directed by AEMO to provide market ancillary services or a generating unit or load is reduced in output or consumption to reduce the procurement level of a market ancillary service intervention pricing will be correctly applied. It also ensures that in circumstances where the current network configuration prevents the supply of the market ancillary service to that part of the region that includes the regional reference node, intervention pricing would not apply.

#### **Application of intervention pricing only to an intervention for a market traded commodity**

ERM Power does not support the Commission's Draft Determination to only apply intervention pricing where a clause 4.8.9 Direction is issued for provision of a 'market traded commodity'. The original intent for the application of intervention pricing was to ensure that when the market operator intervened in the Market in the form of a Clause 4.8.9 Direction, the distortionary impact of this Direction on market outcomes was removed.

The Draft Determination if implemented will result in the distortionary impact of the Direction continuing which may then result in additional generating units, who would otherwise continue to provide the necessary power system services, (system strength, inertia, voltage control, etc) withdrawing from the market due to the impact of these distorted market outcomes. AEMO will then be required to issue additional clause 4.8.9 Directions to generators to maintain the power system in a secure operating state. It is our view that overall the rule changes proposed in the Draft Determination if implemented will lead to an increased frequency of market intervention in the form of the issuing of additional clause 4.8.9 Directions to generators and increased costs for consumers due to increased generator compensation payments than that which would be otherwise the case. We are concerned that the Commission has not sufficiently considered and quantified the impact of such an outcome in the Draft Determination.

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

Yours sincerely

[signed]

David Guiver

Executive General Manager - Trading

07 3020 5137 – [dguiver@ermpower.com.au](mailto:dguiver@ermpower.com.au)