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Friday, 22 November 2019

Mr Joel Aulbury
Advisor
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Aulbury

RE: ERC0270 – Improving Transparency and Extending Duration of MT PASA

ERM Power Limited (ERM Power) welcomes the opportunity to provide this Interim Submission to the Australian Energy Market Commission's (the Commission) Draft Determination to the rule change requests submitted by ERM Power for Improving Transparency and Extending Duration of the Medium Term Projected Assessment of System Adequacy (MT PASA).

About ERM Power

ERM Power is an Australian energy business for business. ERM Power provides large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fueled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load¹. ERM Power also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

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General comments

We acknowledge the Commission's positive response to our rule change requests and support the majority of the Draft Determination. In this interim submission to the Draft Determination we seek to further clarify and provide additional details regarding some areas of our proposed rule changes with regards to the Draft Determination. We are hopeful that the Commission will see merit in publishing this interim submission so as to allow consideration of the matters contained within by other stakeholders when preparing their individual responses to the Draft Determination.

Peak demand forecasts

We note that the Australian Energy Market Operator (AEMO), advice in their submission that they no longer prepare 90% probability of exceedance (POE) demand forecasts for use in their Electricity Statement of Opportunities (ESOO) modelling. AEMO indicated that in the 2019 ES00, the probability of forecast unserved energy (USE) under 90% POE demand conditions was automatically allocated a zero USE value in the average USE calculation. AEMO have advised that this process will be used in future ES00's. Given this new information, we agree with the Draft Determination that requiring AEMO to prepare daily 90% POE forecasts specifically for the MT PASA would be an inefficient outcome, and whilst this in our view would improve the overall transparency of peak demand forecasts, we agree that the additional costs of achieving this are not warranted.



AEMO in their submission to the Consultation paper indicated that their current reliability forecasting methodology is based on scaling of a number of historical reference years to achieve, in each of these reference years, one demand profile trace for the 50%, and a separate trace for the 10% single point summer and winter annual forecasts, as set out in the ESOO demand forecast. As a participant in AEMO's Forecasting Reference Group we have a working understanding of this AEMO process. We are also aware that these scaled reference years are available for download from AEMO's demand forecasting portal.

Notwithstanding, this data as currently presented requires interested parties to download, interrogate and analyse this large amount of data to determine the range of daily maximum demand forecasts for each of the scaled 10% and 50% demand traces. This is a time consuming process that would need to be repeated multiple times by different stakeholders, in order for stakeholders overall to better understand the potential range of forecast outcomes. We believe this represents a barrier to improving the overall knowledge of all stakeholders with regards to AEMO's demand forecasts. Therefore we suggest there would be merit in requiring AEMO to provide in the published MT PASA data the maximum and minimum values of the daily maximum demand forecast outcomes for both the scaled 50% and 10% POE demand traces used in the modelling. We believe this change would improve the transparency and therefore the usefulness for stakeholders of the MT PASA process, and lead to an overall increase in stakeholder knowledge with regards to the demand forecasts used in the MT PASA reliability forecast modelling.

We acknowledge that this may result in some additional costs for AEMO in the initial change to the MT PASA file format; however, overall this would result in a more efficient outcome than this work being undertaken by each individual stakeholder.

We offer the following wording for a proposed rule change to clause 3.7.2(f) for the Commission's consideration.

(1B) the maximum and minimum values of daily maximum demand forecast from both the scaled 50% and 10% POE demand traces

This proposed rule is not intended to replace subclause 3.7.2 (f) (1) which we believe will have an critical role in improving the accuracy of AEMO demand forecasting as part of the forecasting improvement framework which was introduced as part of the Retailer Reliability Obligation.

Frequency of demand forecast updates

We note AEMO's opposition to the requirement that AEMO review and update their demand forecast on a monthly basis, and their concerns regarding the time required by AEMO to prepare an updated forecast. To clarify, the primary intent of this element of our rule change was a requirement for AEMO to review and confirm that the current forecasts remain relevant on a monthly basis, and issue revised forecasts when AEMO notes a material change in forecast market conditions. Where either no change or a change occurred, AEMO would advise via their routine weekly MT PASA notice for one week during the month that the forecast had been reviewed and no change, or a change to the forecast for this region(s) had been implemented. The proposed rule was not intended to require AEMO to issue a new demand forecast every month only to review what was already published.

We also note AEMO's view that the Rules require AEMO to update the demand forecasts in the ESOO should a material change of conditions be determined by AEMO. This view was supported by the Commission in the Draft Determination. In considering this, we believe that it should be noted that AEMO is only required to update the ESOO on an annual basis. Therefore, whilst the Rules require that AEMO update the ESOO demand forecast, this change does not come into practical application with regards to the weekly MT PASA reliability forecast until the publication of the next annual ESOO. We believe that this time delay may result in the inefficient procurement of Reliability and Emergency Reserve Trader (RERT) contracts which are justified by an out-of-date demand forecast in the MT PASA modelling.



The reason for this proposed rule change was driven by a material market event where no review or change to the demand forecasts was undertaken. On 1 December 2016 a significant network failure event led to the loss of the supermajority of the Portland Smelter load in Victoria for an extended period. The reduction in consumption, (approx. 450 MW), by the Portland Smelter represented approximately 9% of average and 5% of peak demand in the Victorian region. Whilst a request was made to AEMO to review the Victorian demand forecasts following this event, in particular for the January to March 2017 period, where public advice issued by the Portland Smelter indicated that the smelter consumption would remain at the current reduced level during this period, AEMO declined to do so, indicating that there was no rules requirement which required them to do so. We believe this event represented a material change in forecast market conditions and a review of the forecasts used in the MT PASA reliability forecast modeling was justified.

We do not believe that this proposed change would entail any additional work by AEMO as currently this internal review to determine if a material change in market conditions has occurred should be occurring on a routine basis already. The only additional step would be in AEMO issuing confirmation to the market that an internal review has been undertaken and no change or a change due to revision of the demand forecast for a region in specific months has occurred (e.g. "Following a review, AEMO notifies the market that a material change to demand forecasts in Victoria in January, February and March 2020 has occurred"). This notification would form part of one of the weekly Market Notices issued by AEMO regarding the reliability forecast outcomes.

With the consent of the Commission we would like to offer amended wording for the proposed rule change to clause 3.7.2(f) to better clarify the intent of our original rule change request.

(1C) the forecast load information referred to in subparagraphs (1) and (1B) is to be reviewed by AEMO on a monthly basis and updated if required to reflect current forecast market conditions;

(1D) AEMO to issue advice that the review as required by subparagraph (1C) has been completed and the outcome of this review

Current intentions and best estimates

We support the inclusion of the Australian Energy Regulator's (AER) draft rule request that the MT PASA provisions should be made consistent with the requirement for ESOO information to represent "the Registered Participant's current intentions and best estimates". We believe that this would already be the case for all MT PASA submissions. In discussions with AEMO regarding the proposed rule changes, AEMO have indicated that it would be helpful, for analysis purposes, if the respective participant could also provide a "submission reason" with each MT PASA submission. We believe this suggested requirement would complement the Draft Rule that the submission represent "the Registered Participant's current intentions and best estimates" and support the inclusion of a "submission reason" with a MT PASA submission.

We do not believe the additional proposed change would result in significant costs being incurred by any party. Currently, when compiling and submitting a new MT PASA submission a participant would normally document the reasons for the change for internal compliance purposes, noting that the AER may request the reasons for any change to a MT PASA submission at any time.

We offer the following suggested rule change to clause 3.7.2 (d) for the Commission's consideration.

(3) a MT PASA submission reason

We also believe that this complimentary requirement to be provided to AEMO will improve the transparency and usefulness of the MT PASA process overall for all stakeholders. For clarity, it is not proposed that the rebid submission reason would be published by AEMO.

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



Yours sincerely

[signed]

David Guiver

Executive General Manager - Trading

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