



27 April 2015

Anne Pearson
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference: EPR0039

Dear Ms Pearson

RE: OPTIONAL FIRM ACCESS, DESIGN AND TESTING, DRAFT REPORT

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Optional Firm Access, Design and Testing Draft Report (the Report).

About ERM Power Limited

ERM Power is an Australian energy company that operates electricity generation and electricity sales businesses. Trading as ERM Business Energy and founded in 1980, we have grown to become the 4th largest electricity retailer in Australia, with operations in every state and the Australian Capital Territory. We are also licensed to sell electricity in several markets in the United States. We have equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which we operate.

The AEMC's Draft Recommendations

ERM Power supports the AEMC's draft recommendation to cease work on the Optional Firm Access (OFA) model at this time. As outlined in our previous submission on this issue, implementing the model in the current environment is unlikely to lead to material net benefit, due to the low incidence of congestion events and investment in generation and transmission infrastructure in the current planning horizon.

The modelled benefits and costs

The AEMC's draft recommendation is to monitor market conditions to identify if implementation of the OFA may become economic in the future. We understand that this recommendation is driven largely by the benefits modelling undertaken by Ernst and Young,¹ which identified two scenarios (out of eleven scenarios modelled) where benefits may be sufficient to exceed the costs of implementing the OFA model.

It is concerning that likelihood of these scenarios eventuating has not been considered by the AEMC. Just two scenarios out of eleven resulted in benefits that could exceed the modelled costs. This fact alone indicates a low likelihood that the OFA model would deliver material net benefits in the NEM. It is also our

¹ Ernst & Young, *Modelling the impact of Optional Firm Access in the NEM*, January 2015

expectation these two scenarios both have a low likelihood of eventuating. We are not convinced that this justifies an annual monitoring and reporting regime to continue to assess a future need for the OFA.

ERM Power also questions the reliability of the costs assessed to determine the appropriateness of implementing the OFA. There remains a significant degree of uncertainty in estimating implementation and ongoing costs for generators:

- The Oakley Greenwood report confirmed the substantial uncertainty around the impact of OFA on generator behaviour and resulting impacts on the wholesale energy price.²
- Generator costs according to survey results were highly variable.
- Generator settlement costs are likely to vary further with changes to the allocation of transitional access.

Further, we are concerned that the Report discussed implementation and operating costs which spanned the first 5 years of OFA operations, however the estimated benefits discussed in the Report spanned 2014 to 2040. In the interest of transparency, we believe the AEMC's final determination report should compare these over the same timescale.

The proposed monitoring regime

The AEMC proposes to annually monitor the cost of emissions (or the costs of generation more generally), as well as the level of demand, to determine whether implementation of the OFA model is more appropriate in the future. It recommends that monitoring is undertaken as part of the AEMC's existing functions for Last Resort Planning Power. We agree that this is a suitable mechanism for monitoring relevant conditions (if monitoring is deemed necessary) as the similar scope means that this should not add significant costs to the AEMC.

ERM Power also recommends that levels of congestion in the NEM are monitored under this process, as an additional indicator of whether implementation of OFA may be justified at a future date. This monitoring should explicitly exclude congestion that is already addressed via existing network support agreements, as these represent an efficient congestion management approach that can be continued without detriment to the market. Any transient causes of congestion should also be excluded.

Such congestion monitoring should be guided by a predetermined definition of the level of efficient congestion across the NEM; that is, the level of congestion that is economically acceptable prior to considering implementation of the OFA model. This is important, as it would be economically inefficient to remove all congestion in the NEM. Further, the OFA would be expected to impact all NEM participants, and therefore must address congestion that, in the absence of OFA, would be likely to meaningfully affect a reasonable proportion of participants.

A further cost benefit assessment would be required

If at a future date the AEMC ascertains that these conditions have changed in such a way that may justify implementation of the OFA model, we believe it would also be important to undertake another assessment of the costs and benefits of the OFA. This would provide the opportunity to account for any changes in circumstances that may affect the level of net benefit that may result from implementation.

² Oakley Greenwood, *Impact of OFA on Generators*, January 2015



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

Yours sincerely,

[signed]

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