



20 April 2016

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

Dear Mr Pearce

RE: Energy Adequacy Assessment Projection timeframes Consultation Paper (Reference: ERC0200)

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) Consultation Paper on the Energy Adequacy Assessment Projection (EAAP) rule change request proposed by AEMO (the Proponent).

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 fourth 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.

General comments

AEMO initially consulted with Participants on the EAAP at a time when expectations of market uncertainty were somewhat different to the current view expressed by some parties. The reasonable expectation at that time was that the Reliability and Emergency Reserve Trader (RERT) provisions of the National Electricity Rules (NER) would cease as indicated in the current NER on 30 June 2016. The change proposed by AEMO to the timeframes for publication of EAAP reports was consistent with the roll off of the RERT.

Since that time the Commission has published its Draft Determination to extend indefinitely the RERT provisions of the NER. ERM Power believes a decision by the Commission to support a change to the EAAP reporting timeframes would be inconsistent with its Draft Determination to extend the RERT.

To be clear, ERM Power does not believe this perceived uncertainty has compromised NEM performance, and therefore does not support the Draft Determination to extend the RERT provisions. Nonetheless, if we assume that the Final Determination on the RERT provisions is likely to align with the Commission's Draft Determination, we must oppose the EAAP rule change request on the basis of consistency between these arrangements.

The ongoing routine three monthly report outcomes as required by the EAAP provisions of the NER should be considered as essential if the Commission truly believes that the NEM is entering a period of increased market uncertainty. It is this view of ongoing and increased market uncertainty that has been cited by the Commission to justify the extension of the RERT provisions of the NER in the Commission's

Draft Determination. It would be inconsistent for the Commission to extend the RERT, but then amend the EAAP reporting timeframes to a longer time period than current.

ERM Power also believes that this issue is of such importance in a number of areas with regard to the NEM that utilising the expedited rule change process under which there is only one round of consultation is unwarranted. The Commission should issue a Draft Determination for review and comment by Participants prior to the issue of the Final Determination.

The importance of the EAAP to the efficient functioning of the NEM

The EAAP provides a critical counterbalance to the often conservative assumptions used by AEMO as inputs to the Medium Term Projected Assessment of System Adequacy (MTPASA) process. Historically, where the MTPASA process has indicated a possible Low Reserve Condition (LRC), the more detailed and probabilistic EAAP analysis has indicated no forecast Unserved Energy (USE) during these periods. Without this counterbalance provided by the more detailed EAAP analysis, it is highly probable that the RERT will be activated by AEMO at additional costs to consumers, both transparent and opaque, than would otherwise be the case.

Lack of cost savings analysis by the Proponent

The Proponent in their rule change request indicates there is potential for cost savings, which may at some time in the future pass through to consumers. The Proponent believes this will occur due to a reduction in the administrative burden on generators in the provision of Generator Energy Limitation Framework (GELF) data and AEMO through a lower frequency of EAAP report publication.

ERM Power believes that the only reduction in administrative burden on generators in the provision of GELF data is with regard to the time taken to enter the data into AEMO's web interface. The super majority of other modelling and analysis will still be undertaken by generators anyway as part of their prudent internal risk management processes.

The Proponent offers no details of the expected reduction in AEMO's internal costs and possible Participant fee reductions as part of their rule change request. This detail at least should be supplied by the Proponent to support their proposal. Given that the EAAP model and report format already exists, any cost savings would be minor.

Triggers for additional EAAP reporting

The Proponent proposes the following triggers for additional EAAP reports

- Referencing Tasmanian water storage;
- Low Reserve Condition (LRC) in the MTPASA;
- AEMO discretion based on an event; and
- When a Participant informs AEMO of an event or circumstances that it considers may result in a material energy constraint.

It is unclear as to why the trigger for water storage is limited to Tasmanian water storages only, given the impact that water storages at other locations, in particular in the Snowy Mountains Scheme, may have on NEM outcomes.

ERM Power acknowledges that the inclusion of a trigger based on LRC conditions in the MTPASA is warranted and in fact is critical; the question is then how long does an LRC condition need to be in the MTPASA prior to the request for provision of GELF data to generators, and what timeframe exists for AEMO to publish an EAAP report.

Given that the major MTPASA update is published weekly, an outcome of this is that it is possible that the need for a revised EAAP report could also arise more frequently than the current 3 monthly frequency.

The proposed rule change could result in a cost increase rather than a cost decrease as put forward as a reason for the change by the Proponent.

ERM Power also submits that additional triggers are required in light of the proposed extension of the RERT:

- Prior to commencing any informal or formal negotiations with a potential RERT supplier(s) or calling for a RERT Panel; and
- A further EAAP report should be issued prior to entering into any RERT contract.

ERM Power does not support the proposed alternative solution to a transparent triggers-based need as outlined in the Consultation Paper, which would require AEMO to only undertake additional reporting when there is a change in circumstances that would materially alter the most recent EAAP. This leaves a high degree of discretion with regard as to what may or may not constitute sufficient materiality.

In conclusion, the EAAP provides a critical counterbalance to the MTPASA for efficient outcomes in the NEM, the proposed extension of the RERT requires that the current EAAP provision of the NER remain unchanged if the Commission's decision in this regard is based on a consistent rule making decision framework.

No actual cost benefit analysis has been provided by the Proponent to support their rule change request; this detail should have been provided by the Proponent as part of the rule change request to allow the rule change to be properly assessed. ERM Power believes that any cost benefit would at best be minor.

If the Commission considers that the proposed rule should be made, ERM Power believes that a transparent triggers-based criterion is superior to the alternative proposed in the consultation paper, in delivering an efficient outcome. Also, at least two additional triggers, as set out above, are required to take into account the proposed extension of the RERT provisions of the NEM, otherwise it is almost certain that additional costs to consumers, than would otherwise be the case, will occur.

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