



Friday, 25 October 2019

Mr Hugh Ridway
Australian Energy Market Operator
Level 22, 530 Collins Street
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RE: Enhancements to RERT Rule Change – Update to Procedures

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) consultation on updates to AEMO's Procedures for the Exercise of Reliability and Emergency Reserve Trader (RERT); and Procedure for the Dispatch and Activation of Reserve Contracts, collectively 'the Procedures'.

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

The procurement of RERT must be based on all available information and adhere to comprehensive and consistent standards. This is important to ensure that the costs of RERT procurement are incurred only when out of market reserves are necessary, and when sufficiently valued by consumers.

AEMO is currently conducting consultation on amendments to AEMO's Procedure for the Exercise of the Reliability and Emergency Reserve Trader; and Procedure for the Dispatch and Activation of Reserve Contracts. These Procedures reflect changes resulting from the 'Enhancement to the Reliability and Emergency Reserve Trader' rule change Final Determination and amendments to the RERT guidelines.

ERM Power is supportive of amendments which ensure that relevant RERT Guidelines and AEMO's RERT Procedures remain fit-for-purpose to ensure the appropriate volume and timing of RERT procurement. We provide recommendations to amend the proposed AEMO procedure to achieve this objective in the discussion below.

Reliability Standard Implementation Guidelines

The Commission's Final Determination on the rule change regarding RERT provisions in the National Electricity Rules included explicitly linking the trigger for RERT and the volume of RERT procurement to the reliability standard. The methodology by which AEMO operationalises this linkage with the reliability standards is outlined through the Reliability Standard Implementation Guidelines (RSIG), which describes the processes AEMO undertakes to conduct evaluation of forecast market outcomes against the reliability standard.

The RSIG specifically outlines AEMO's approach to assess the forecast of unserved energy (USE) against the reliability standards

¹ Based on ERM Power analysis of latest published information



The processes that AEMO uses by which AEMO implement the reliability standard against projections of USE are clearly outlined, including the processes undertaken to issue a 4.8.9 instruction and direction and to procure and activate RERT. The current RSIG – Version 2.0, clearly indicates that the Electricity Statement of Opportunities (ESOO) is not a process used to initiate RERT procurement.

ERM Power believes it is important that the most up-to-date information available is used both prior to commencing any RERT procurement process and the formal signing of any RERT procurement contract. In considering this, we note that the publication of the Energy Adequacy Assessment Projection (EAPP) has changed from a publication frequency of every three months to an annual frequency. Considering that both the EAAP and ESoo are currently annual publications, it is suggested that both publications be given equal consideration when undertaking decisions regarding initiation of any RERT procurement process. In this regard we believe that the annual EAAP publication performs the same 'information only' function as the ESoo.

Procedure for the exercise of the Reliability and Emergency Reserve Trader

The Procedures for the Exercise of the Reliability and Emergency Reserve Trader (RERT) are made under Clause 3.20.7(e) (Procedures). These Procedures describe the process that AEMO follows when exercising RERT. We provide recommendations on Sections 5, 6 and 7 of the Procedures below.

Section 5: Determining the term and quantity of reserves to be procured

ERM Power supports the requirement outlined in the Procedures for AEMO to undertake reasonable efforts to ensure that the reserve procurement term and volume is no more than reasonably necessary. We believe this is achieved through the utilisation of the most up-to-date available information and by maintaining transparency throughout the RERT decision-making process.

It is stated in the Procedures that AEMO may:

- *“consider information from AEMO’s systems, modelling and analysis, including Medium Term PASA, Short Term PASA, ESoo and EAAP;*
- *consider any other information that AEMO reasonably considers to be relevant.”*

In keeping with our view that the most up-to-date information be used in any RERT procurement decision, we recommend that the draft Procedure be amended to reflect that AEMO will primarily consider outcomes from the Pre-Dispatch and Short Term Projected Assessment of System Adequacy (ST PASA) for decisions relating to the procurement and activation of short-notice RERT and the Medium Term Projected Assessment of System Adequacy (MT PASA) when making medium-notice or long-notice RERT procurement decisions. Whilst the ESoo and EAPP may provide additional information pertinent to a RERT procurement decision, the combined weighting applied to information contain in these reports, which would generally be less up-to-date and therefore relevant, should be lower than information derived from the MT PASA process which is updated every week and the ST PASA and Pre-dispatch processes which are updated frequently during each day.

The Commission’s final rule determination also focused on increasing transparency and reporting, to assist market participants and consumers in planning for RERT costs. Within this scope, ERM Power believe it is important to clarify that during any RERT procurement process, AEMO should only use relevant information which has been previously communicated to the market and where possible allow sufficient time for a market response, as opposed to the proposal to *“consider any other information that AEMO reasonably considers to be relevant”*

Additionally, clause 3.20.7(e) (2) states that the following must be provided to the market:

“a methodology to be used by AEMO to determine the appropriate term of a reserve contract and the amount of reserves to procure in accordance with clause 3.20.3(m)”



We believe that the relevant detail with regard to this Methodology has not been provided as required as part of the proposed Procedures. ERM Power recommends that this methodology either be detailed in the Procedures or via a separate document referenced in the Procedures, and that AEMO use the most up-to-date information available at the time of any RERT procurement decision, including AEMO's Pre-Dispatch, ST PASA or MT PASA, as relevant, in determining RERT procurement volumes and RERT contracting period. Failure to use current information may not support the objective stated in the Procedures to ensure that the reserve procurement term and volume is no more than reasonably necessary.

Section 6: Basis for determining the estimated average VCRs

The Procedures state that for the purposes of clause 3.20.7(e)(3) and 3.20.2(b)(3) of the NER, AEMO will use the energy-weighted average aggregate VCR values (or equivalent) published for each region. ERM Power believe that VCR values are crucial to determining the reasonable capacity and time period for any RERT procurement.

The Enhanced RERT rule change Final Determination requires the use of average VCR of the loads most likely to be subject to involuntary load shedding. ERM Power believes that AEMO's approach proposed in the amended Procedures does not meet this requirement as it only proposes to use a volume weighted average of all VCR's not the average of the VCR values most likely to be subject to involuntary load shedding and should be amended to align with the Rules objective.

Section 7: Methodology to dispatch and activate reserve contracts

The Procedures state that "AEMO will issue instructions to reserve providers in accordance with each applicable reserve contract."

We agree that clear and transparent instructions are important to ensuring the appropriate operation of RERT. We also believe that when a RERT contract is pre-activated or activated that this information be clearly communicated to the Market via a Market Notice. ERM Power recommends that section 7.1 should provide details of the communication process to the Market of RERT pre-activation or activation via a market notice in accordance with clause 4.8.5B. This will ensure that communications to all stakeholders are appropriate and fit-for-purpose.

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

Yours sincerely

[signed]

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