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

+61 3 9214 9333
ermpower.com.au

Wednesday, 20 March 2019

Mr Rye Johnstone
Senior Data Analyst
Electricity Market
Australian Energy Market Operator
GPO Box 200
Melbourne VIC 3001

Dear Mr Johnstone

RE: Market Suspension Compensation Methodology Consultation

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO's) National Electricity Market (NEM) Market Suspension Compensation Methodology Issues Paper (the Paper) issued 7 February 2019.

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[1], with operations in every state and the Australian Capital Territory. 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

Scheduled Generator and Ancillary Service Provider Classes

ERM Power operates the open cycle gas turbines at Oakey power station in Queensland. Oakey power station is capable of operating either a gas or liquid fueled generator. We believe from a perspective of clarity that Section 3 of the proposed methodology should be amended to show both fuel types of open cycle gas turbines separately.

- Gas fueled open cycle gas turbines
- Liquid fueled open cycle gas turbines

Calculation of Benchmark Values

We also submit that Section 4 of the proposed methodology be amended to recognise that dual fueled generators are capable of operating in either fuel mode and that provisions be included in the methodology for verification of fuel usage via fuel meter readings as opposed to a default compensation regime were compensation is payed based on gas usage only with the scheduled generator then required to submit a claim for additional compensation at a proposed additional cost of $3,500 plus 10% GST per additional compensation claim.

We believe the need to claim for additional compensation based on the type of fuel used whilst complying with an AEMO dispatch instruction creates an unwarranted additional administrative cost on a scheduled generator that may be responding to the needs of the power system at a time of system stress.

[1] Based on ERM Power analysis of latest published financial information.

A dual fueled scheduled generator should not be financially penalised for responding to a dispatch instruction from AEMO simply due to the fact that at the time the Market Suspension Pricing Schedule is invoked a generating unit may be dispatched at a settlement price below its efficient cost of production and the compensation methodology is unnecessarily restrictive.

We also request that whilst benchmark values are to be sourced from the current modelling and assumptions workbook as published by AEMO, the assumed output factor for open cycle gas turbines applied in this workbook is set at 100% output factor based on winter loadings. During a market suspension event, generating units could be required to operate anywhere between minimum stable loading and maximum capability. Actual unit heat rates could vary by considerable values based on time of year and actual generator loading compared to the values contained in the current modelling and assumptions workbook. We suggest that in considering benchmark values to be used in the calculation of compensation, the baseline value for flexible operating plant should be based on an output factor of 80%.

We note that in section 4.1.1 – Individual benchmark values, AEMO proposes that in the three categories, (fuel, thermal efficiency and variable operating costs) if a value is absent from the current modelling and assumptions spreadsheet that AEMO will allocate default values which in our view fail to adequately represent close to actual values. We believe that AEMO must ensure that these values are adequately and accurately represented in the current modelling and assumptions workbook.

Flexible operating plant such as open cycle gas turbines during a period of market suspension, may be required to start and stop on a frequent basis by AEMO at market price outcomes below the participants offer prices to assist the restoration of large generating units and demand blocks, this will result in this flexible plant incurring significant additional costs in complying with AEMO's dispatch instructions. The provision of flexible start, loading and stopping by these flexible generators should not be compromised by the exclusion of costs from the automated compensation process for unit start up. Where a generator is dispatched by AEMO at a market price below its offer price, the automated compensation provision should cover the generating unit's start costs. We submit that Section 4.2 of the proposed compensation methodology be amended to include for generator start costs as set out in the GHD 2018.19 Costs and Technical Parameters workbook as published by AEMO and that the 2019 modelling and assumptions workbook be amended to include generator start costs. Scheduled generators should not be financially penalised by having to lodge claims for additional compensation for providing operational flexibility during a period of market suspension due to the omission of unit start costs from the proposed automated compensation methodology.

Conclusion

We thank AEMO for the opportunity to provide input to the current consultation process. We have set out a number of changes to the proposed methodology which we believe will improve the efficiency of the automated market suspension compensation methodology and reduce administrative costs for both AEMO and scheduled generators.

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