27 January 2017

Mr James Lindley
Manager Systems Performance and Commercial
Australian Energy Market Operator
GPO Box 200
Melbourne VIC 3001

Dear Mr Lindley

RE: Causer Pays Procedure – Factors for Asynchronous Operation Consultation Draft Determination January 2017

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's Issues Paper for the Causer Pays Procedure – Factors for Asynchronous Operation Consultation Draft Determination published in January 2017.

About ERM Power Limited

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. ERM Power also sells electricity in several markets in the United States. The Company operates 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. www.ermpower.com.au

General comments

ERM Power is concerned by the Australian Energy Market Operator's (AEMO's) decision as set out in the Draft Determination to implement AEMO's preferred Option 1 solution. This is despite no submission to the Issues Paper supporting AEMO's preferred solution and all except one submission strongly opposed to this option. The preferred Option 1 solution in fact represents no change to AEMO's current Causer Pays Procedure which was found to be deficient in meeting the National Electricity Rules (NER) by a NER Disputes Resolution Panel determination. We believe that AEMO's Option 1 solution continues to fail to meet the requirements of the NER and the original intent of the 2007 rule change with regard to recovery of local Frequency Control Ancillary Services (FCAS) regulating services requirements costs.

ERM Power continues to support the use of Option 2 as this best complies with the Rules and the guiding principles and intent of the original rule change. The implementation of Option 2 was supported by all submissions to the Issues Paper.

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

Potential for Risk Mitigation to Impact on System Security

AEMO has raised the spectre that efficient risk management strategies by participants in response to high local FCAS regulation service requirements prices could impact negatively on system security, in the event a partcipant was to choose to reduce or remove generation from service if Market participants preferred option – Option 2 was implemented. ERM Power contends that this supposed risk to system security is no different to that which currently exists with regard to high local FCAS contingency raise services prices where historically generators have reduced or removed generation in response to high local FCAS contingency raise services prices.

ERM believes the main reason this has not occurred recently in the South Australian context is that a Jurisdictional Directive prevents AEMO from implementing local FCAS contingency raise requirements preferring instead to rely solely on under frequency load shedding of consumer demand to mitigate the impact on secure system operation of credible contingency events. We note however that for similar system conditions, local FCAS contingency raise requirements continue to be activated by AEMO in other regions of the NEM.

Similarly, system security or reliability concerns which occur when a remote generator withdraws availability in response to being constrained on at a Regional Refererence Price less than its cost of production are routinely managed by AEMO to prevent any insecure system operation.

In all the cases above, any system security or reliability concerns can be and have been efficiently managed on a routine basis by AEMO by the issue of a Clause 4.8.9 Direction or Instruction under which the generator continues to generate on the basis that all its costs will be covered.

ERM Power continues to support the principle that to meet the original principles and intent of the 2007 rule change any methodology must be based on the principle that the allocation of costs for the recovery of all local FCAS regulating services requirements are based on the calculation of causer pays factors using the current trading interval values that apply at the time that the local FCAS regulating services requirements are invoked by the Market Operator. It is only through the use of the current trading interval values that particpants may implement efficient risk mitigation solutions.

The proposed Option 1 methodology, which continues to use distant historical data, fails to allow basic risk mitigation solutions by participants and prevents economically efficient cost recovery based on a participant's conduct at the time local FCAS regulating requirements are invoked by the Market Operator.

Calculation of Causer Pays Factors for Local or Asynchronous Operation

AEMO appears to have misinterpreted ERM Power's submission with regard to the treatment of local requirements for asynchronous operation and local requirements for other reasons as possibly supportive of AEMO's preferred approach. To clarify ERM Power's position in this regard, we believe that the use of the Option 2 calculation methodology should apply to all Dispatch Intervals when local FCAS regulation services requirements are imposed by the Market Operator for any reason. This should in no way be viewed as supportive of AEMO's preferred option.

Resourcing Requirements to Implement Option 2

AEMO argues that a major reason for not implementing Option 2 and instead preferring to maintain the Option 1 process is that Option 2 would be more resource intensive than simply continuing to use Option 1 as AEMO's processes would need to allow for a dual process instead of a singular process under some Market outcomes.

ERM contends that the same number of Dispatch Intervals would still be subject to analysis and the only difference to the current AEMO process would be a separation of some Dispatch Intervals into a parallel process on an *as required* basis when Market outcomes result in local FCAS regulation services requirements. We are not convinced by AEMO's argument that this will require a significant increase in resource allocation.

Conclusion

In summary, taking the intent and the guiding principles of the original rule change request and the arguments and considerations detailed within the AEMC's draft and final rule determinations as well as the Rules as written, ERM Power believes that the calculation methodology as detailed in Option 2 is the only fully Rules compliant option of the three options proposed.

The methodology calculates contribution factors based on a market participant's conduct at the time local FCAS regulation services requirements are invoked and allows participants to implement efficient risk mitigation solutions in real time in the event of high local FCAS regulating services prices. The methodology is in accordance with NEMMCo's stated preference during the original rule change request consultation upon which the rule proponent and the AEMC agreed to a compromise solution within the final rules. When implemented, Option 2 will meet the design concept of *as and when required* during the settlement calculation process using current trading interval values put forward by NEMMCo during the rule change process which was generally accepted at the time as the *most practical* methodology to be adopted by the Market.

We do not believe that the arguments put forward by AEMO against implementing Option 2 are sufficiently substantial to prevent its implementation as soon as reasonably practical.

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

Yours sincerely,

[signed]

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Executive General Manager - Trading

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