



20 December 2016

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

Dear Mr Lindley

RE: Forward Looking Loss Factor Calculation Methodology Consultation 2016

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's Draft Determination for the Forward Looking Loss Factors Calculation Methodology Consultation published September 2016.

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 load¹ 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 acknowledges the work undertaken by AEMO during 2016 with regard to improving the process transparency for the calculation of forward looking transmission loss factors in the NEM. We are, however, concerned by some elements of the Draft Determination where it appears that the ideas raised in our submission to the initial issues paper have been misunderstood by AEMO.

Nominated transparency improvements

ERM Power remains concerned that AEMO continues to indicate it will only publish the backcasting study outcomes on an electrical sub-region basis rather than on a connection point basis. We remain convinced that in the interests of transparency the backcasting study outcomes need to be published on a connection point rather than electrical sub-region basis. Unfortunately, participants will now be required to submit a rule change request to require AEMO to undertake this backcasting study by connection point on a yearly basis rather than simply implementing this change as part of the AEMO review process. We ask that AEMO reconsider its decision with regard to this.

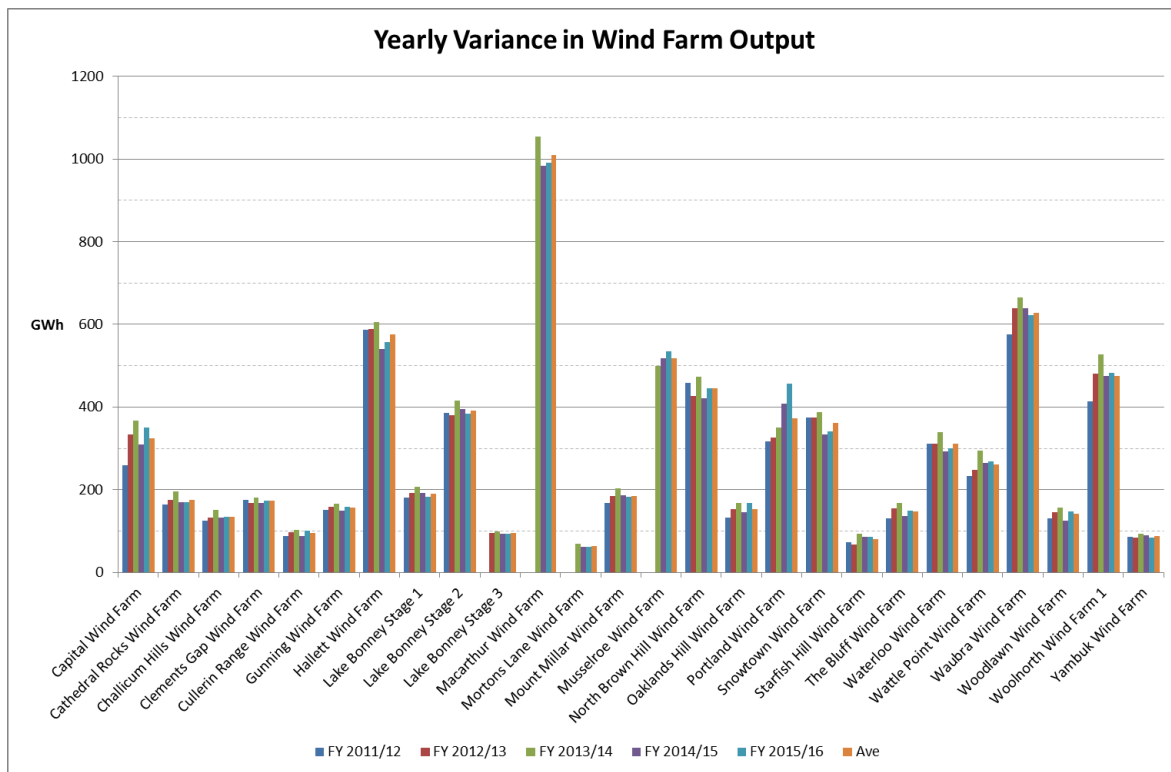
¹ Based on ERM Power analysis of latest published financial information.

Methodology design issues

In our submission to the issues paper, ERM Power set out that energy caps should not be imposed on solar PV and wind generators. However, in the Draft Determination it appears that AEMO has assumed ERM Power did in fact propose a cap on solar PV and wind generation output. This is incorrect.

What ERM Power did raise is that we are concerned by AEMO’s intention to use only a simple single reference year to represent the output of solar PV and wind generation in the analysis year. A number of other participants at the workshops also indicated that reliance on only a single reference year to represent outputs from solar PV and wind generators could possibly result in errors in the marginal loss factor (MLF) calculation and that errors could be minimised by using a 5 year multi-year averaged outcome to represent solar PV and wind farm output.

The following graph details generation output from a number of mature wind farms that have been in service for a number of years. The graph highlights the natural variance in output that can be readily observed between different years.



The amount of natural yearly variance for these wind farms totals approximately 1,500 GWh. As more wind farms are commissioned, this volume of natural variance will increase. ERM Power believes that the use of a 5 year average where possible for solar PV and wind generation output would provide improved outcomes when compared to the use of only a simple single reference year.

The other easily implementable improvement proposed by ERM Power was the use of planned outages as advised in the MTPASA process, in place of historical outages from the reference year. As discussed during the workshops, the proposal by ERM Power was for AEMO to have a process to review and compare outages from the reference year with outages currently submitted in the MTPASA for the analysis year and when a variance was observed, AEMO would initiate discussions with the responsible participant to improve the forecast production for the analysis year.

We proposed this provision for identification of outage variance as unit outages can vary considerably between years, particularly for single and two-unit power stations, or for units returning from periods of temporary mothballing. This can have a significant impact on generation output, not just for that power station, but all other power stations connected within the same electrical sub-region.

The purpose of this proposal was to allow AEMO, in discussion with the responsible participant, to adjust a power station's nominal energy output to reflect the inclusion or non-inclusion of a planned outage for the analysis year. This information could be readily identified from the MTPASA data and confirmed with the respective power station registered participant.

Currently, the forecast generation output as published by AEMO to be used for the FY2017/18 MLF calculation includes what ERM Power would regard as possible significant outage variances between the reference and the analysis years for the following power stations. We would encourage AEMO to enter discussions with the responsible participants.

- Kogan Creek – low output for the April to June 2018 period due to an extensive major outage in April to June 2016
- Tarong North - Creek – low output for the April to June 2018 period due to an extensive major outage in April to June 2016
- Tarong Power Station – Tarong 2 returned from temporary mothballing in March 2016, this has increased the nominal output of Tarong from 3 to 4 units. The AEMO forecast for FY 2017/18 still indicates 3 unit operations at Tarong for the July to February period.
- Liddell – low output for March and April 2018 period due to a number of simultaneous forced unit outages in March and April 2016

Collectively this represents an underestimation of approximately 5,000 GWh of potential output for these generators that has currently been allocated to other generators for FY2017/18. ERM Power believes it would be better for the AEMO procedure to allow AEMO to initiate discussions with the responsible participant based on MTPASA submissions rather than simply rely on the historical reference year.

Ongoing improvement cycle

ERM Power's understanding is that AEMO's proposal when commencing the first roundtable discussions was for AEMO to engage with participants on an ongoing basis to systematically review outcomes and implement processes to improve the accuracy of the MLF calculation process. ERM Power believes any improvements implemented for FY2017/18 are only a first step in achieving much needed improvements in accuracy and transparency in the AEMO forward looking MLF calculation process.

We are concerned by AEMO's statements in section 4.4 of the Draft Determination that seems to indicate that it has stepped away from the proposal for an ongoing improvement process and that any further improvement steps will need to be initiated by participants. We believe this to be a retrograde step by AEMO and if implemented will undermine AEMO credibility for any future workshop and consultation process.

Appendix B to the original issues paper contained other issues raised by participants during the successive roundtables and workshop and we believe that AEMO should continue to discuss outcomes from the changed process for FY2017/18 and progress and report on the improvement concepts as contained in Appendix B for future consideration.



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

Yours sincerely,

[signed]

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