

A few
words.



3 December 3, 2015

Shari Boyd
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Boyd

Rule Change Request–Demand Side Obligations to Bid into Central Dispatch

AGL Energy Ltd (AGL) welcomes the opportunity to comment on Snowy Hydro Ltd's Rule Change Request: Demand side obligations to bid into central dispatch (the proposed rule). AGL is one of Australia's leading integrated energy companies, operating a retail business with over 3.7 million customers and a power generation portfolio of over 10,000MW, which consists of base, peaking and intermediate generation plants, spread across thermal and renewable energy sources.

The following are our comments in relation to the rule proponent's supporting arguments.

Improvement in AEMO Forecasting Accuracy

AGL considers that the proposed rule is unlikely to have a material effect on the accuracy of AEMO's forecasting of prices. There are often variances between AEMO's forecasting of the price at predispatch and the actual spot price. This is because there are a multitude of variables that shape the spot price, which may continually change and are therefore difficult to forecast.

While, the demand side response of market customers to the pool price may make the predispatch price more accurate, its effect may be limited considering there are many other variables that make the spot price different from the predispatch price. Therefore, it is unlikely that requiring market customers to bid into central dispatch will result in a greater ability to forecast the spot price.

Efficiency of Derivatives Market

Similarly, the proposed rule may only have a limited effect on the price signals in the derivatives market because there are many variables that contribute to the pricing in the NEM. As noted above, requiring market customers to bid into the central dispatch may not necessarily provide a more accurate forecast or certainty of the spot price, hence it won't result in more certainty in the derivatives market.

Costs to Market Customers

While there may be benefits to the NEM of the proposed rule, the additional costs market customers would need to incur to operate as scheduled participants are likely to outweigh any of these benefits. It is commonly acknowledged that participation in the central dispatch process is a very complex and dynamic task, therefore it requires engaging people with considerable market knowledge and expertise in trading in the wholesale spot market. Further, there are significant system and IT costs involved in monitoring and

participating in the market, as well as considerable ongoing legal and compliance costs to adhere to the rules and regulations governing the NEM. These costs would all need to be covered by this new class of market participant.

In conclusion, AGL does not consider the proposed rule is likely to result in material benefits to the NEM that will justify the associated costs that will be borne by market customers in its implementation. AGL considers that there may be merit in investigating whether there are better ways of capturing information about these larger loads that places less regulatory burden on these smaller participants, but improves transparency. It may also be worth investigating the effect of non-scheduled generation behaviour on pre-dispatch prices and whether this may improve price signals in the market.

If you have any queries about the submission or require further information, please contact Josynta Singh at jsingh@agl.com.au or on 03 8633 6628.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux
Manager Wholesale Markets Regulation