



3 May 2012

Attention: Elizabeth Ross
Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Dear Ms Ross

Consultation: Negative offers from scheduled network service providers

The NGF is pleased to have this opportunity to respond to the consultation on negative offers from scheduled network service providers (SNSP).

The NGF is the national industry association representing private and government owned electricity generators. NGF members operate all generation technologies, including coal-fired, gas-fired, bio-waste, solar, hydroelectric plant and wind farms. Members have businesses in all States and Territories.

The proposed rule change is contentious as it deals in wealth transfers between participants, rather than increases in efficiency. If one considers this Rule change proposal in the light of wealth transfers there are three options:

1. Tasmanian generators and Basslink get the dispatch
2. Latrobe valley generators get the dispatch
3. The dispatch is shared

At present the Rules allow for [1] above.

Option [2] as intended (notwithstanding any issues over losses that have been identified by the AEMC staff) by LYMMco and IPRA will result in either nil or possibly counter-price flows on Basslink, transferring wealth to these participants away from Hydro Tasmania.

The third suggestion is a solution whereby the NEMDE is modified such that regardless of a negative RRP in Tasmania and negative bidding on Basslink, the NEMDE determines a [min] -\$1,000/MWh price for the Latrobe Valley located generators and Basslink. This would mean the normal sharing arrangement as set out in the "Equally Priced Dispatch Bids and Dispatch Offers" provisions of Chapter 3 apply. This would result in all parties being on an equal footing and receiving a share of the transmission capacity towards the Victorian reference node.

First thoughts were that option [3] is the most appropriate, as one easily assumes an equitable outcome may also be efficient. This is because the SNSP of Basslink is a competitor within the Victorian region and should be able to compete on an equal footing with generators in Victoria. One should think that Basslink should not be penalised, just as it should not be advantaged by the Rules.

Upon greater scrutiny it is difficult to identify improved efficiency from any of the three options above. Members could not determine which one is the most efficient, not on the basis of productive efficiency (due to assumptions on costs associated with hydro generation), nor on the basis of allocative & dynamic efficiency (as if constraints are stopping Latrobe generators from contracting, then they may allow Hydro Tasmania to sell a contract in Victoria instead).

After reaching no conclusion members decided to reassess whether there is a problem within the Rules that needs to be resolved. The proponents appear to be unclear as to whether they believe SNSPs should be able to offer negative prices or whether the problem is Hydro Tasmania can instruct Basslink to bid negative.

It may be that the “problem” specified by the proponents only arises because a controller of an interconnector may also own generation behind a SNSP. In such an instance it may take lower revenue on generation in the exporting region (depending on any hedge contracts), but higher revenue on the scheduled interconnector (the difference in import-export prices) and make money (otherwise they wouldn’t do it).

If there were independent generators to the SNSP (behind it) then they would have less incentive to offer negative generation offer prices and the SNSP would probably not have priority over the generators in the importing region, as they should not have any additive pricing advantage. This may depend on whether the generators behind the SNSP have any contracts for the residue accruing to the SNSP or whether there is a natural surplus of generation in the exporting region.

This is therefore an issue over whether:

1. Generators should also own transmission, or SNSPs
2. Whether there is too great a concentration of generation in an exporting region

These are issues that should be considered by legislators, competition regulators and not the Commission in its Rule making powers.

Yours sincerely



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Executive Director

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