

A few
words.

11 November 2013

Daniel Hamel
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Hamel

AEMC Draft Rule Determination - Negative Offers from Scheduled Network Service Providers (SNSPs)



AGL Energy Ltd (AGL) welcomes the opportunity to make a submission in response to this draft rule determination.

Loy Yang Marketing Management Company (now AGL Loy Yang Marketing Pty Ltd), together with GDF Suez Australian Energy (collectively referred to hereinafter as AGL/GDF) are concerned with the inefficient outcomes caused by negative offers from SNSPs which can culminate in some generators having an effective offer below the market floor price. These outcomes are inconsistent with the National Electricity Objective (NEO) of efficient operation of the NEM. Hence, AGL/GDF lodged a rule change request to remove this distortion – the rule change aimed to limit SNSPs lowest value bid to \$0MWh.

In response to this request, we note that the AEMC has proposed a 'more preferable' rule change - for SNSP offers to be subject to the same market floor price as scheduled generators and scheduled load (currently set at -\$1000/MWh).

AGL considers that the preferable rule change doesn't resolve the distortion (this point is also noted by the AEMC in the Draft Determination). Moreover, it is not clear that it satisfies the legal test for a *more preferable rule*, which is to be more likely to contribute to the NEO. Central to the AEMC's role is to develop rules that will contribute to the NEO. Given this role, and the fact that the more preferable rule does not address the problem, AGL requests that the AEMC consider alternative solutions to address the problem – some of which are identified in this submission.

The AEMC Draft Rule Determination

AGL considers that, the fundamental issue with the AEMC's proposed rule change is that it does not effectively resolve the problem identified in the AGL/GDF rule change proposal.

It is implicit that a rule chosen in preference over another should attempt to resolve the same issue. Otherwise there is little value in assessing whether the rule is preferable to the original. The AEMC state that it is a combination of factors such as Hydro Tasmania's ability to direct Basslink that causes the distortion. While that assertion may be true, the reality is, it would likely be a

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difficult factor to try to change. Accordingly, if there are ways to resolve the distortion through a rule change, then they should be fully explored by the AEMC.

Furthermore the *more preferable rule* has to be more likely to contribute to the achievement of the NEO¹. A rule that removes the distortion in the market is more likely to contribute to the achievement of the NEO than a rule that continues the distortion. Instances of negative bidding by the SNSP can distort the market by enabling generation to effectively be bid into the market at below the price floor and potentially be dispatched ahead of the most efficient generation capacity. Clearly, this is inconsistent with how an efficient market should operate. The AGL/GDF rule change request sought to address this issue and to improve the efficiency of the market – which directly relates to the achievement of the NEO.

The AEMC have said that their rule is more preferable because it supports competitive neutrality and that leads to efficient investment in the NEM. However, this is not a strong argument in this context. Rules affecting the negative bidding by an SNSP are unlikely to materially influence the decision about whether to invest in an SNSP or a generator. Hence, it is questionable whether the AEMC rule has satisfied the 'more preferable rule' test.

Possible options to address the impact of negative offers from SNSPs

As resolving the distortion is more likely to contribute to the achievement of the NEO, the AEMC should consider other ways to resolve the distortion, possible options include the following (the options are presented in no specific order):

Option A: Ensuring that the Tasmanian clearing price plus the Basslink offer is not below $-\$1000/\text{MWh}$.

This option requires that the combined Basslink offer and Tasmanian regional reference price is greater than $-\$1000/\text{MWh}$. We understand this option may be technically difficult to implement in the NEM Dispatch Engine (NEM DE), but AGL considers that this solution has merit and is worth further investigation.

Option B: All Hydro Tas offers + Basslink offers are greater than $-\$1000/\text{MWh} * \text{TLF}$.

This option would require all combinations of Hydro Tasmania's generator offers and Basslink transport offers to be greater than $-\$1000/\text{MWh}$. This is similar to Option A, however this option is isolated to Hydro Tas offers and not the Tasmanian clearing price, so it does not involve interactions between Tasmania and the rest of the NEM and the presence of local FCAS constraints as Option A would.

¹ The AEMC may make a Rule that is different (including materially different) from a market initiated proposed Rule (*a more preferable Rule*) if the AEMC is satisfied that, having regard to the issue or issues that were raised by the market initiated proposed Rule (to which the more preferable Rule relates), the more preferable Rule will or is likely to better contribute to the achievement of the national electricity objective, Section 91A of the National Electricity Law.

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In turn this means that the lowest priced price band with non-zero quantity offered for all generators plus the lowest price band for a Basslink transport offer with non-zero quantity would have to be greater than $-\$1000/\text{MWh}$. We would expect that the AER or Tasmanian Government would need to manage this compliance.

Option C: The implied Basslink price at the Latrobe Valley terminal when exporting to Victoria is greater than $-\$1000/\text{MWh} * \text{MLF}$.

This option essentially aims to put the combined market presence of Hydro Tasmania and Basslink on the same electrical footing as Latrobe Valley generators.

The proposal aims to limit the combined offers of Basslink and Hydro Tasmania such that the effective price for exports to Victoria at the Loy Yang terminal is greater than $-\$1000/\text{MWh}$ or perhaps greater than $-\$1000/\text{MWh} \times \text{MLF} = -\$970/\text{MWh}$.

Conclusion

Given the inefficient outcomes caused by this situation are inconsistent with the NEO, we urge the AEMC to investigate alternative options to resolve the problem.

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,



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