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Dear Richard

AEMO Comments on Consultation Paper: Potential Generator Market Power in the NEM

Thank you for this opportunity to comment upon this proposed National Electricity Rule (NER) change.

We note the initial stages of the AEMC's assessment framework include clarifying the meaning of market power, assessing evidence of it and investigating whether other legal means exist to address it. AEMO's comments do not address these matters.

The AEMC intends to assess the mechanics of this Rule change, or any other option to control market power, in Stage 3 of the consultation process. AEMO intends to provide more detailed comments at that stage, and we would be happy to assist the AEMC upon request.

Whilst AEMO has not yet assessed the implications of the proposed Rule change upon the NEM, we can provide several reflections:

- The spot market rules were designed to support an efficient spot market, and whilst they might facilitate competition, they were not intended as a means to control anti-competitive behaviour¹. Generally it is better to impose control mechanisms, should they be required, external to the market rules².
- AEMO's primary concern is where any incentives are placed on generators to withdraw capacity at times of peak demand, or to bias input information into our reliability forecasting. It will be important to understand these incentives and to consider whether the proposed regulatory controls can adequately manage them.
- The market dominance criteria proposed by this rule presumes deterministic inputs. However these inputs, such as the transmission capacity into a region, vary greatly with system and dispatch conditions.
- The market settings required to support the reliability standard assumes some periods of high spot prices. This rule might therefore need to be taken into account

¹ This is explicitly described in the NER 3.1.4(b).

² An example of such a control applies to Tasmanian Frequency Control Ancillary Services.

when recommending settings. The AEMC has recently recommended reducing the frequency of price setting reviews to four-yearly³.

- Inter-regional trading is an important facilitator of NEM competition. In our submission to the AEMC's Transmission Frameworks Review, AEMO described market design problems which undermine inter-regional trading. That Review presents an opportunity to improve competition by resolving these problems.

For further discussion, please contact Ben Skinner on 03 9609 8769.

Yours sincerely

David Swift
Executive General Manager Corporate Development

³ Draft National Electricity Amendment (Reliability Settings from 1 July 2012) Rule 2011, at: <http://www.aemc.gov.au/Electricity/Rule-changes/Open/Reliability-Settings-from-1-July-2012.html>