

Our Ref: 45641
Your Ref: EPR0121
Contact Officer: Mark Wilson
Contact Phone: (08) 8213 3419

26 August 2011

Ms Arianwyn Lowe
Australian Energy Market Commission
POBox 42449
Sydney South NSW 1235

Dear Ms Lowe

Re: Application and operation of Administered Price Periods

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the AEMC's draft decision regarding AEMO's Application and operation of Administered Price Periods (APP) Rule Change Proposal.

The AER monitors the wholesale electricity and gas markets and is responsible for compliance with and enforcement of the National Electricity Rules and National Gas Rules. The AER is also responsible for the economic regulation of electricity transmission and distribution services as well as gas transportation services. These roles leave the AER well placed to comment on the application and operation of administered price periods. Our submission focuses on the proposed changes to clause 3.14.2(c)(3).

We reiterate the view expressed in our previous submission that clause 3.14.2(c)(3) is ambiguous and difficult to implement. We also submit that removing clause 3.14.2(c)(3) could potentially increase price volatility and increase the risk that market participants are exposed to extreme spot prices. The AER is concerned that the AEMC has not had sufficient regard to the concerns of stakeholders in its draft decision to delete clause 3.14.2(c)(3). Submissions by the National Generators Forum (NGF) and TRUenergy both supported the AER's view that the clause should be amended rather than deleted.

The AER supports an approach where the decision to extend administered pricing is based on forecast price data in the pre-dispatch schedule. This approach achieves similar result to the current arrangements, but without the ambiguity and administrative difficulties associated with the current drafting.

The AER is of the view that removing this clause could have a significant impact on the market and does not agree with the AEMC's view that removing the clause will improve certainty to participants and will improve the climate for investment in generation thereby lowering wholesale prices in the long term.

The AEMC considered that discretionary intervention in the market by AEMO and the AER is a material risk for participants and investors and therefore the intervention should only be retained if the benefit gained can be reasonably expected to at least offset the uncertainty it creates. The alternative option to extend the APP automatically based on forecast price data in the pre-dispatch schedule is not discretionary, and so the uncertainties for participants are lessened.

In addition, the AER is of the view that deleting clause 3.14.2(c)(3) may actually increase uncertainty in the wholesale market. It is feasible that administered pricing would cycle off and on each day, leading to significant volatility. If the alternative option to extend the APP automatically based on forecast price data were adopted, then this situation would generally be avoided, as forecast prices would generally indicate the CPT would be breached again the next day and therefore administered pricing would remain in place.

The AEMC considers that using pre-dispatch forecast prices creates an incentive for generators to influence pre-dispatch prices. While the AER recognises this as a possibility, we consider that this detriment is outweighed by the benefits of avoiding a daily cycling off and on of administered pricing. Furthermore, manipulation of forecast prices through rebidding is subject to the good faith provisions in clause 3.8.22A.

If you have any questions regarding the information in this submission please contact Mark Wilson on (08) 8213 3419.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Leuner', with a long horizontal flourish extending to the right.

Tom Leuner
Acting CEO
Australian Energy Regulator