

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

20 February 2015

Dear Mr Pierce

National Electricity Amendment (Bidding in good faith) Rule 2014

QGC welcomes the opportunity to provide comment on the National Electricity Amendment (Bidding in Good Faith) Rule 2014 Options Paper (the Options Paper). QGC supports efficient, predictable and stable energy markets. We recognise that price volatility is an inherent feature of an efficient "gross pool" electricity market such as the National Electricity Market (NEM) and rebidding enables participants to effectively respond to change and manage risk. Further we only support regulatory change that is introduced to address demonstrable market inefficiency and where the benefits outweigh the costs.

In our previous submission to the Australian Energy Market Commission's (the Commission) (AEMC) Consultation Paper, QGC stated that the NEM was facing some challenges regarding bidding behaviour and recognised these were largely focused in Queensland. Further, we did not consider the main elements of the Rule change request, submitted by the Minister for Mineral Resources and Energy (South Australia), would assist the market. In fact, some options are inconsistent with the National Electricity Market Objective (NEO) and would limit otherwise efficient rebidding and price determination in the market.

More recently, however, observing the price volatility in Queensland over December 2014 and January 2015, the impacts of "late rebidding" on the efficient and effective operation of the market are now of increasing concern to QGC. In particular, some of the extreme price volatility is not reflective of underlying supply and demand fundamentals making it difficult to predict market outcomes. We understand it also causes some generators genuine difficulty in plant operations and hence pricing and offering risk mitigation products. The Queensland market is likely to face further consolidation, which could exacerbate the situation.

We understand the problem to be caused by the different ramping capability of generation plant. "Late" rebidding by some generators (largely with coal-fired portfolios) means that they are able to reduce capacity in the final five minute dispatch interval, which limits the plant that can respond and results in price spikes.

Changes to the National Electricity Rules (NER) will be necessary to:

1. Set an overall market conduct expectation for the market; and
2. Correct this specific issue by ensuring the market more closely reflects a "level playing field" in terms of enabling all players an opportunity to respond to changes irrespective of ramping capability. An asymmetry current exists in the market and is distorting price outcomes.

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We support the work of the Commission in this area and provide the following specific comments on the outlined options.

Behaviour statement of conduct

- The NEM requires some form of specific regulations that guides appropriate bidding behaviour which extends beyond the existing "Good Faith" provisions. The "Good Faith" provisions were designed to target specific market behaviour and have proved ineffective in addressing emerging issues such as "late" rebidding. A "Behavioural Statement of Conduct", as explored in the Options Paper, could assist in addressing the current issue, but similar to the "Good Faith" provisions tends to focus on specific behaviour and could inadvertently discourage otherwise efficient rebidding.

The Corporations Law offers broader provisions to manage risks around potential market manipulation in Australian financial markets. The Options Paper indicates there could be challenges in applying these types of provisions to bids and offers in the NEM. We note, however, that Regulation for Energy Market Integrity and Transparency (REMIT) has been introduced in Europe and adopts market conduct and insider trading provisions, similar to those applicable in financial markets, and applies them to wholesale energy markets. We consider there is significant merit in the Commission specifically exploring REMIT in more depth and how it was practically introduced. We would be pleased to advise the Commission on BG-Group's experiences in terms of its development and application.

- Overall, regardless of whether specific changes around "late" rebidding are implemented, we consider enhanced market conduct provisions are necessary to bridge the gap between the regulations that apply in financial markets and the trade in physical wholesale energy products. It would bring the NEM in-line with requirements in other jurisdictions.

Restricting rebidding

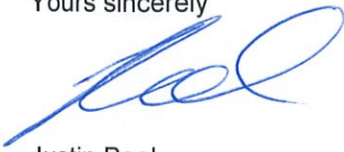
- We are not convinced the "A Behavioural Statement of Conduct" alone will avoid the identified rebidding issues. Statements are open to interpretation and their effectiveness is only tested after a potential damaging market event. It will be necessary to introduce some new rules to restrict inefficient "late" rebidding. "Gate closures" operate in other energy markets and offer a potential option. We support the Commission undertaking further work on the design of an effective a "gate closure" mechanism. In doing so it should:
 - Ensure any changes are targeted and do not unnecessarily restrict participants ability to respond to market changes, the timing limitations should be defined in terms of aligning market/ramp rate response times across the various plant on the system. Before defining a specific window, we suggest the AEMC undertake a survey of ramping capability across the different plant types in the NEM.
 - Carefully consider the types of rebidding that is restricted. It is not necessary to restrict all forms of rebidding during the "gate closure" window. Generation plant that was off-line for technical reasons that becomes 'available' during the "gate closure" window should be able to be rebid to commence operation.

Other comments

Notwithstanding the comments above we consider an overall review of how MPC is calculated in the NEM and the resetting of a value that is more reflective of market drivers could negate the need for these more fundamental changes in the market design. At the time of some extreme price spikes, there is very little distribution of volume across a broad range of price bands. Rather base level generation is priced around \$30-\$50/MWh and the remainder of capacity is priced at or around MPC even though there is still surplus generation capacity available.

We looking forward to continuing our participating in the consultation process and please do not hesitate to contact Ms Erin Bledsoe erin.bledsoe@bg-group.com if you have any specific questions regarding the issues raised in this submission.

Yours sincerely



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