NATIONAL GENERATORS FORUM

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The Chairman
Australian Energy Market Commission
Level 5
201 Elizabeth Street
SYDNEY NSW 2000

By Email: submissions@aemc.gov.au

Dear Dr Tamblyn

EnergyAustralia's rule change request: Compensation provisions due to the application of an administered price, VoLL or market floor price

The National Generators Forum (NGF) appreciates this opportunity to comment upon the EnergyAustralia (EA) rule change. The NGF understands EA's desire to improve the predictability of market customers' liabilities for compensation payments.

EA describes extreme hypothetical scenarios in their supporting material, such as a "pay as bid market" which we agree is not the intent of the current rule. The NGF does not necessarily accept these scenarios are realistic, but we would accept some clarification in the rule's wording to put the matter beyond doubt.

The NGF's concern with the EA rule change is its reliance for fair compensation upon a narrow definition of "direct costs", being incremental fuel, maintenance and manning costs. NGF members are not confident that the process would provide compensation that, in hindsight, the generator would consider adequate. That in turn will discourage generator participation at the time they are most needed and possibly precipitate NEMMCO intervention (where clear precedents of generator compensation exist).

For example, in the case of hydro generation the concept of "fuel cost" is indeterminate and judgemental. A dispatched hydro generator has only two business days to provide evidence supporting a controversial valuation of its stored water.

Similar issues apply to gas fired generators purchasing from a relatively shallow and dynamically priced gas market. Even coal generators have indeterminacy in their incremental maintenance and fuel costs, e.g. where mill movements are required.

The existing rule provides confidence that the panel will, in forming their view of a "fair and reasonable" compensation, take into account the generator's own nominated point of indifference to production:

> 3.14.6(e)(3) "….the difference between the *spot price* applicable due to the application of the *administered price cap* and the price specified by the *Scheduled Generator* in its *dispatch offer"*

EA's motivation is a fear that generators will game the administered price cap (APC), i.e. because the APC effectively removes their liability to difference payments under hedge contracts, the revenue maximisation strategy is to dramatically raise offers upon application of the APC, and that a Retailer will be unable to pass this additional cost through to its customers.

However the NGF considers the existing rule goes some way to addressing that concern by requiring the panel to take also into account:

> "(1) all the surrounding circumstances;
> (2) the actions of any relevant *Registered Participants* and *NEMMCO*;"

To put the matter beyond doubt, however, in preference to the amendments proposed to clause 3.14.6(e)(3), the NGF would consider it reasonable to alter 3.14.6(e)(2) to words such as:

> "the actions of any relevant *Registered Participants*, including any changes to their *dispatch offer* co-incident with the application of the *administered price cap,* and *NEMMCO;"*

Yours sincerely

John Boshier
Executive Director