NOTE

TOPIC

POTENTIAL GENERATOR MARKET POWER – DRAFT DETERMINATION

BACKGROUND

Adelaide Advertiser story "Abuse of power" (12/6/12 p1) claimed SA generators are inflating power prices in peak periods. It asserts that the AEMC is critical of generators but will not take action.

By senior reporter, Miles Kemp

RESPONSE

About the rule change request

The Adelaide Advertiser report relates to the AEMC's draft determination on a rule change request from the Major Energy Users' (MEU) – titled *Potential Generator Market Power*.

The MEU's rule change request sought to limit the bidding behaviours of generators which were deemed to have market power.

Following analysis of the issues, and extensive consultation with stakeholders, the AEMC found there was insufficient evidence of substantial market power amongst generators to warrant a change to the Rules for the National Electricity Market. The AEMC has explained its analytical framework and approach so that any stakeholder who is concerned about substantial market power amongst generators in the future is aware of the information that the AEMC would require to review its position on this issue in the future.

Additional information on the AEMC's draft rule determination is available in the public information sheet on the AEMC's website.

Submissions on the draft determination are due 20 July 2012.

Advertiser: "This is an admission that SA consumers are being overcharged by generators gaming the market,"

The Commission determined that:

- "There is insufficient evidence of substantial market power to warrant the introduction of a rule that restricts the dispatch offers of generators in the NEM," (*Page i, Draft rule determination).*
- prices in the wholesale spot electricity market can be volatile at times. When demand is very high or a power station suffers an expected outage, prices can rise substantially, while at times of low demand and high power station availability prices can sometimes be negative. What matters to consumers is the level of prices over the longer term rather than in any short term period because prices for consumers are generally set based on estimates of prices over the longer term. It is this measure of prices which the AEMC has considered for this rule change proposal.
- prices have occasionally risen above estimates of the long run efficient level, but have also been below this level in a number of years. This pattern of prices over the medium term indicates that the wholesale electricity market is working well.
- consistent trends across multiple regions strongly support the existence of factors external to the market influencing prices rather than generator behaviour being the principal cause.

Advertiser: "The Australian Energy Market Commission report was most critical of companies turning off generators on hot days to force up wholesale power prices, which has a flow on effect to power bills."

- The AEMC engaged NERA Economic Consulting to analyse whether generators had increased wholesale prices above competitive levels and sustained those prices for extended periods of time.
- Analysis showed that average annual prices have on occasion risen above long term efficient levels – but there may be a range of reasons for this in different regions across the NEM – and there were a number of periods when prices were below the long term efficient level. The periods of high prices were not sustained for a long enough period to support claims of the exercise of substantial market power.

Advertiser: "The effects on household power bills cannot be calculated but the Commission's report confirms it has a flow on effect."

The AEMC determined that

- transient periods of high prices in the wholesale spot market are unlikely to directly flow through to residential electricity bills.
- this is because jurisdictional regulators in determining regulated retail prices generally calculate the wholesale cost reflecting long run generator costs, which is not based on wholesale spot market prices. Where market pricing is used jurisdictional regulators can take account of unusual market circumstances.

Advertiser "Proof that companies were manipulating prices was found when the commission studied how they cut their capacity when prices rose to a peak of $250/MW hour. The practice was most common in SA."

A consultant report to the draft determination from CEG noted that South Australia showed a reduction in available capacity when prices exceeded $250.

Possible explanations included in the report are:

- accidental outages;
- transmission constraints in periods of high price force more plant in those states to operate at lower utilisation;
- the nature of SA generators means they can't respond as quickly to changes in price.

Given the other analysis that the AEMC has done, we are satisfied that there is insufficient evidence of wholesale electricity prices being above long run efficient costs for a sustained period, and therefore there is insufficient evidence of substantial market power amongst generators. So the AEMC has not undertaken an analysis of the causes of this reduction in available capacity. Such an analysis would be necessary before any conclusions as to the causes of the reduced availability of capacity could be drawn.

Clarifications

- The Commission is not an enforcement agency, it does not "fine" companies.
- The regulated minimum price in the National Electricity Market is -$1000 per MWh and the maximum is $12,500 per MWh.