

13 July

John Tamblyn, Chairman
Australian Energy Market Commission
Level 16, 1 Margaret Street
Sydney NSW 2000

By email: submissions@aemc.gov.au

Dear John,

MANAGEMENT OF NEGATIVE SETTLEMENT RESIDUES IN THE SNOWY REGION BY REORIENTATION

Origin appreciates this opportunity to provide some brief comments to the above consultation. We draw the attention of Australian Energy Markets Commission to two previous submissions we provided in response to the Southern Generators/NEMMCO (SG&N) proposal and the MacGen proposal for addressing negative residue accumulation in the Snowy region. In those papers we argued that a regional boundary change which places Murray in Victoria and Tumut in NSW would be preferable to the alternatives presented, because it delivers a greater benefit to competition. The same applies to reorientation, since it also has the effect of places Snowy generation in either Victoria or NSW depending on the direction in which the reorientation is applied.

The key benefits of the reorientation approach as we see them are:

- It removes the incentive for SH to engage in strategic bidding, since it has no control over its own pricing node. The SG&N proposal would in fact increase incentives for strategic behaviour of Snowy generation.
- Murray generation is placed in Victoria on an equal footing with all other generation in that State. The greater the amount of generation surrounding a pricing node the more competitive and liquid the trade around that node.
- Reorientation would mean that Murray and Victorian generators observe the same price signal and thus all have the same capacity to respond to that price signal. While Murray has incentives to bid low this is because it has low marginal costs and its bids will affect the price it receives (to the extent it knocks higher cost Victorian generation off the bid stack). There is a partial mismatch between dispatch and pricing but it is not substantively different to that affecting other generators subject to a regional price. Reorientation is consistent with the principles of regional market design where generators generally do not receive the price at their node.
- The removal of the negative residue and subsequent NEMMCO intervention to clamp interconnector flows reduces inter-regional trading risk for all generators on the export side of the Murray-Tumut constraint. The SG&N proposal reduces risk for Victorian generators but increases it for Snowy generation. It also reduces the value of SNOWY-NSW settlement residues for all participants.

- Reorientation (now occurring in both directions) would have the effect of placing SH generation in regions with substantial retail load thus lowering its trading risks. This consequently also lowers contract costs for retailers supplying Victorian and NSW customers (not least because they have greater access to low marginal cost greenhouse friendly Snowy generation); which is a further benefit to competition.
- This approach is very closely aligned with the likely future direction for regional boundary change in the Snowy region, thus providing a more appropriate transition path for participants. This minimises transaction and regulatory disruption costs over time. The SG&N proposal is more ad-hoc and arbitrary in nature as it is a temporary fix and only applied to one interconnector.

If you wish to discuss any of these matters further please do not hesitate to call Con van Kemenade on 8345 5278

Yours Sincerely,

Signed

Michael Hayes
Manager, Portfolio Strategy & Regulation