

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

3 July 2015

Dear Mr Pierce

Draft Rule Determination - National Electricity Amendment (Bidding in good faith) Rule 2015

QGC welcomes the opportunity to provide comment on the Draft Rule Determination National Electricity Amendment (Bidding in Good Faith) Rule 2015 (the Draft Rule). 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.

As stated during earlier engagement on this issue, after 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 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.

QGC understands the Draft Rule would amend relevant provisions in the National Electricity Rules (NER) as follows:

- the current requirement that offers be made in good faith would be replaced by a prohibition against making false or misleading offers;
- the obligation not to mislead the market would need to be met by generators on an ongoing basis through a requirement that any variations to offers be made as soon as practicable; and
- additional reporting requirements would be imposed on variations to offers made close to dispatch.

In response, while we support the proposed changes in a general sense, QGC is not convinced that they will materially alter the conduct of generators with respect to "late" rebidding. Furthermore, in our view these changes represent the minimum regulatory standard in terms of market conduct requirements and we would be disappointed if these were "softened" in the final Rule amendment. The following points expand on this position.

- The amendments represent a general improvement on the current market conduct and reporting provisions governing the NEM. They bring the NER more in-line with requirements in other international energy markets.
- The new reporting requirements do not represent a significant increase in "regulatory burden" for generators nor should they limit the level of "efficient" rebidding activity undertaken by participants. The proposed requirements are consistent with good corporate compliance and risk management procedures (i.e. the information requests are likely to be already recorded in trader log books etc.). We do recognise, however, that there is merit in potentially limiting the types of reportable activity during the implementation phase to limit it only to those rebids of particular concern. For example we would not expect additional reporting is necessary if a rebid was undertaken in response to a technical plant issue. As operator of Condamine Power Station (CPS), QGC would be subject to these requirements.
- As "late rebidding" is impeding the efficient operation of the market (physical and financial), QGC would have preferred that the Australian Energy Market Commission (AEMC) progressed with a more thorough investigation into the option of a targeted market design change (including an appropriately designed "gate closure") rather than limit the changes to the "good faith" provisions. These types of models have been effectively introduced in international markets.
- In addressing "late rebidding", we are of the view that a well-designed "gate closure" mechanism would more effectively target a change in generator behaviour. General market conduct provisions are open to interpretation and their effectiveness is only tested after a potential damaging market event. Furthermore, it can take a number of years before a potential breach is issued by the Regulator or considered by a Court. In the recent court case, concerning the good faith provisions, it took several years before a final decision was handed down.
- If the Draft Rule proceeds, it should be subject to a two year review to ensure it is appropriately addressing "late rebidding" and to identify any necessary changes.

These points largely reflect the views raised by QGC at the Public Forum held on 25 May 2015 and we would welcome further questions. Please do not hesitate to contact me at erin.bledsoe@bg-group.com or on 07 3364 2621 with any enquiries.

Yours sincerely,



Erin Bledsoe
Regulatory Manager