



Mr John Pierce
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Australian Energy Market Commission
PO Box A2449
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Dear Commissioners,

Reference: ERC0140

National Electricity Amendment (Negative offers from scheduled network service providers) Rule 2012

A: Introduction

TRUenergy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) "Consultation Paper" that deals with the National Electricity Amendment (negative offers from scheduled network service providers) Rule 2012.

Hydro Tasmania has a commercial agreement with Basslink which gives control of BassLink's bidding to Hydro Tasmania in exchange for a fee. The agreement is known as the BassLink Services Agreement (BSA).

A Ministerial Notice in force prior to 4 May 2008 that applied to the BSA, provided that Hydro Tasmania must not request negative transport bids in either direction and only be allowed positive southward flows in limited circumstances. Unfortunately, a revised Ministerial Notice on 4 May 2008 revoked this position and permitted Hydro Tasmania to bid BassLink negative where mainland transmission constraints were causing BassLink northerly flows to be reduced.

This Rule change attempts to address a problem that arises as a consequence of the revised Ministerial Notice issued on 4 May 2008.

Mainland transmission constraints impact generators who rely on that part of the transmission network to dispatch their generation. Thus, when a transmission constraint arises in the Latrobe Valley the problem of network flow being reduced is experienced by all generators situated on the same side of the constraint including Hydro Tasmania via BassLink.

Under normal circumstances when a constraint applies, generators will usually bid their capacity to as low as the market floor price of \$-1,000 to limit the amount of generation being constrained off. However, a problem arises with Victorian based generators when Hydro Tasmania bids its output to the market floor and at the same time bids northerly BassLink flows at a negative price. The impact of this is that the two negative bids have the effect of enabling Hydro Tasmania to in effect bid its generation to below the market floor i.e. up to \$2,000. In short, this gives Hydro Tasmania preferential treatment over all the other participants in the face of a constraint.

This outcome defeats the concept of competitive neutrality amongst participants in the NEM. This will ultimately have an impact on the risk premium in generation investment causing detrimental impact on long term customer welfare. The Rule proposal resolves this and therefore advances the National Electricity Objective (NEO).

B: Key recommendations

TRUenergy's position on the proposed Rule change (Negative offers from scheduled network service providers) Rule 2012 is as follows.

1. We do not consider that the BassLink Services Agreement (BSA) should exist. In our view, we suggest that both Hydro- Tasmania and BassLink are capable of being rival suppliers. As such, we believe that they should be competing against each other, rather than being subject to the BSA. Having argued this, we understand that the AEMC has no power to resolve this issue. And, it is there to just assess the merits of the proposed Rule change against the National Electricity Objective (NEO).
2. We support the proposed Rule change request from the proponents that attempts to resolve the situation described above where the two negative bids have the effect of enabling Hydro Tasmania and its generation to in effect bid below the market floor i.e. up to \$2,000. We do not consider that the BSA should allow a particular market participant to gain any preferential access over another market participant under the current open access rules.
3. The Rule change itself would have the impact of applying to all MNSPs. In effect, the Rule change proposal would require that prices specified in the network dispatch offer must not exceed the market price cap and must not be negative. This would have the impact of resolving the problem identified. However, a key concern is that it would apply to all MNSPs in a broader sense. In our view, because there are no other MNSPs currently operating in the market, that on balance, this should not be considered as an impediment to the proposed resolution. In fact, we understand that there is no other MNSP currently being proposed to be developed by any market participant. Therefore, on balance, we do not consider that the broader application of the Rule proposal to be an issue of significance.

C: Conclusion

TRUenergy appreciates the opportunity to comment on this Rule change proposal.

We support the following proposed solution that has been put up by the Rule proponents. Overall, we do not consider that that the two negative bids have the effect of enabling Hydro Tasmania to in effect bid its generation to below the market floor i.e. up to \$2,000 is acceptable. In short, this gives Hydro Tasmania preferential treatment over all the other participants in the face of a constraint.

We thank the AEMC for its consideration of the issues that we have raised in relation to this Rule change. For any questions regarding this submission, please contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards



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