



3 May 2012

Ms Elisabeth Ross
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235

By electronic submission: www.aemc.gov.au

Dear Ms Ross

ERC0140 - Negative Offers from Scheduled Network Service Providers

Origin Energy Limited (Origin) welcomes the opportunity to provide a submission to the AEMC's Consultation Paper on negative offers from scheduled network service providers.

International Power (IP) and Loy Yang Marketing Management Company (LYMMCO) have submitted a rule change proposal to the Australian Energy Markets Commission (AEMC) to limit bids from Scheduled Network Service Providers (SNSPs) to a floor price of \$0.00. The rule change is in response instances where IP and LYMMCO believe they were disadvantaged on a constraint where Hydro Tasmania and BassLink were able to bid below -\$1,000, disproportionately constraining down generation at the Loy Yang Power Station.

Origin does not support the rule change as proposed.

A key principle to the operation of efficient markets is the competitive neutrality between various supply sources. The proposed rule change would explicitly disadvantage supply from SNSPs against power stations by imposing a \$1,000 bid price differential between the two sources, constraining down supply from a SNSP ahead of a generator when a constraint became binding. In doing so the rule would effectively impose a discount on the value of SNSPs.

The principle of competitive neutrality is important for the efficient operation of the national electricity market (NEM). This encourages timely investment in a range of technology types to maintain adequate intra and inter-regional supply of electricity. Rules that discriminate between technology types are likely to discourage investment and lower the options available for intra and inter-regional electricity supply.

The rule change as proposed by IP and LYMMCO aims to address a perceived bias where SNSPs are able to effectively bid below the price floor when the SNSP bid is added to the bid from a power station. In practice, this relates to Hydro Tasmania's contract with BassLink and the way they are bid in the market compared to bids from Loy Yang A & B. BassLink is connected to the mainland at the Loy Yang switch yard and is the only SNSP in the NEM.

Under existing regulations and contractual arrangements Hydro Tasmania can instruct BassLink to bid negative for northerly flows where:

- The Victorian spot price is higher than the Tasmanian spot price;
- The Tasmanian spot price is negative; and

- Transmission constraints that affect the La Trobe Valley connection points becomes binding.

The rule change proposal cites several examples where BassLink and Hydro Tasmania received priority dispatch over Loy Yang when a constraint between Hazelwood and Loy Yang in the La Trobe Valley became binding. In these instances:

- The Victorian spot price was higher than the Tasmanian spot price;
- The Tasmanian spot price was negative; and
- There was a binding constraint at the La Trobe Valley connection points.

In the instances cited, the bidding by Hydro Tasmania and BassLink was within existing regulations. The constraint cited by the proponents at the La Trobe Valley connection point has Loy Yang A and B, Valley Power and northerly flows across BassLink on the controllable left hand side of the binding constraint. The rule change therefore attempts to change the relative value of generation within the constraint between BassLink, Loy Yang and Valley Power.

We consider the application of a rule change to resolve dispatch risk for participants at a connection point sets a bad precedence and represents poor regulatory practice. Imposing discriminatory bidding restrictions on SNSPs runs counter to the principle of competitive neutrality. The rule as proposed would also likely deter investment in SNSPs diminishing the National Electricity Objective (NEO).

The proponents have suggested a floor price for SNSP of \$0.00 to prevent Hydro Tasmania and BassLink from being able to bid below -\$1,000. Where an issue exists with the bid validation process this should be resolved within the NEM Dispatch Engine in accordance with NER clause 3.8.1(b). We do not support the proposal as it applies different rules to sources of supply to rectify what appears to be dispatch risk at a connection point.

The constraint at the La Trobe Valley connection point became binding under outage conditions on high demand days. Measures to optimise and improve the efficiency of the transmission system to minimise dispatch risk include the Service Target Performance Incentive Scheme (STPIS). Incentive schemes are a more appropriate method of minimising participant dispatch risk through avoiding outages through high demand periods.

If you have any questions or would like to discuss this submission further, please contact Hannah Heath (Manager, Regulatory Policy) on (02) 9503 5500.

Yours sincerely,



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