



Potential generator market power

Consultants' technical paper released for comment

As part of its consideration of the Major Energy Users' rule change request in relation to potential generator market power, the AEMC has engaged consultants to prepare a paper on the calculation of long run marginal cost and other technical issues that were discussed in the AEMC's recent directions paper.

Purpose of the technical paper

The Australian Energy Market Commission published its directions paper on the Major Energy Users' rule change request on 22 September 2011.

The directions paper set out the Commission's proposed approach to defining market power in the national electricity market, including the Commission's proposed definition of 'substantial market power'. A key feature of the Commission's proposed definition is an assessment of whether a generator has the ability to cause sustained annual average wholesale prices that exceed long run marginal cost. The Commission published a report from its consultants, NERA Economic Consulting, together with the directions paper.

A public forum on the directions paper was held in Adelaide on 12 October 2011 and submissions on the paper closed on 17 November 2011.

At the public forum and in several submissions, a number of stakeholders requested that the Commission publish a technical paper providing additional details on the approach to estimating long run marginal cost. Some stakeholders also requested that the Commission further explain other technical aspects of the Commission's proposed definition of substantial market power, such as the approach to calculating annual average prices and the test for determining the appropriate geographic market definition.

The technical paper that the Commission has published today responds to these requests.

Matters addressed in the technical paper

The technical paper has been prepared by NERA Economic Consulting and Oakley Greenwood. It sets out NERA and Oakley Greenwood's advice to the Commission on approaches to the following matters:

- the estimation of long run marginal cost;
- the calculation of annual average wholesale spot and contract prices; and
- the application of the 'SNIP test' to assist in determining the appropriate geographic market definition.

The technical paper does not respond to submissions on the direction paper. Instead, its purpose is to provide greater technical detail explaining the concepts that were set out in the directions paper and the NERA report that was published with the directions paper.

The Commission is currently considering submissions on the directions paper.

**Any comments on
the technical
paper are due by
2 February 2012**

Status of the technical paper

The technical paper is not a Commission document. It does not represent the Commission's position. Instead, it sets out advice from NERA Economic Consulting and Oakley Greenwood, which the Commission is currently considering.

Comments on the technical paper

The Commission will consider any stakeholder comments on the technical paper together with the submissions that have already been received on the directions paper. Comments should be limited to the matters addressed in the technical paper, and not broader issues related to the Major Energy Users' rule change request. Any comments should be received by 2 February 2012.

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