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22 May 2014

Sebastien Henry
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged electronically.

Dear Mr Henry

Rule Change Consultation: Bidding in Good Faith

AGL Energy Ltd (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) National Electricity Amendment (Bidding in good faith) Rule 2014 Consultation Paper.

AGL considers that, overall, the rule change proposal would have a deleterious impact on National Electricity Market (NEM) outcomes by making rebidding ineffective and unusable. By shifting the burden of proof, increasing the scope of information required, defining materiality and rebidding timing, the proposal would significantly increase the administrative burden and participant risk, thereby restraining market participants from efficiently rebidding generation plant in response to changes in market circumstances. This would ultimately negatively impact the National Electricity Objective. Accordingly, AGL does not support the rule change proposal.

It is critical to understand that rebidding is fundamental to the efficient operation of the NEM. Rebidding, even what some may view as 'strategic rebidding' quite often results in lower wholesale prices. For example, a generator may rebid in late generation capacity to reduce the wholesale price because it may have customer load that is exposed to high prices. There is only a very small subset of rebidding that is at issue, which is late rebidding that causes high wholesale prices.

Accordingly, AGL considers that the need for any changes to the current rebidding settings must definitively prove that the negative impacts of late rebidding are greater than the benefits provided by rebidding overall. Additionally, any action to implement changes or amendments to rebidding practices must be proportional to the problem and undertaken in a way that ensures that there are no subsequent unintended negative impacts.

Ultimately, it has not been proven by the proponent that the negative impacts of late rebidding outweigh the benefits of rebidding overall. Furthermore, the rule



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change request will have a detrimental impact on rebidding behaviour generally, resulting in upward pressure on prices and affecting the efficiency of the market.

AGL provides responses to the specific questions raised in the consultation paper, below.

Question 1: Do you consider late strategic rebidding to be the primary issue raised by this rule change request?

AGL considers that the primary issue raised by the rule change request is late strategic rebidding coupled with the strategic withdrawal of capacity that causes high wholesale prices.

Question 2: Do you consider the NEM trading arrangements of five-minute dispatch and 30-minute settlement to be relevant to the issue of late strategic rebidding? Do you have any views as to how any issues arising could be addressed?

While the five-minute dispatch and thirty-minute settlement is a contributing component to the issue, shifting to a five minute dispatch and settlement arrangement will not stop late rebidding. This is because there always be a market participant who will be able to bid last in the relevant interval and generators that have faster ramp rate capabilities than others.

Moreover, there are significant negative impacts associated with moving to such an arrangement, such as misalignment of retail billing practices and dilution of market signals and returns to peaking generation capacity.

It is also important to understand that the market already provides a way for participants to minimise their exposure to high prices caused by late rebidding. If they are concerned by this behaviour, they are able to purchase caps in the contract market, which in the current oversupplied market, have significantly dropped in price.

Addressing the issue of ramp rate constraints may potentially alleviate some of the opportunity that late rebidding provides. However, AGL does not consider that there is a regulatory solution that will prevent late rebidding from occurring without impacting on rebidding behaviour generally.

Question 3: Do you consider there to be benefits in the proposed rule to reverse the onus of proof onto generators?

AGL does not consider that there are benefits to the proposed rule change to reverse the onus of proof onto generators. AGL does not agree with the assertions made by the proponents that its own advice concludes that the proposed rule change does not, in fact, reverse the burden of proof.

AGL notes the ACCC's December 2002 conclusion on this point, as quoted in the Consultation Paper, that reversing the onus of proof 'had the potential to impose significant costs on participants' and 'may encourage participants to bid and rebid more conservatively leading to less flexibility in the market'. AGL strongly supports this view. Moreover, conservative rebidding practices will reduce the instances where rebidding leads to lower wholesale prices. A clear example of this is events in mid-January this year when significant capacity was offline in South Australia and Victoria in a heatwave, which resulted in the Market Price Cap (MPC) being forecast in pre-dispatch. However, the wholesale price never reached the MPC because of participants rebidding additional generation capacity.

In addition, AGL notes that administrative costs associated with reversing the onus of proof would be magnified by the proposal that generators provide details of bidding behaviour in relation to the generator's entire generation portfolio in the event of a request by the regulator to confirm good faith rebidding.

Question 4 (for ease of response question 4 (a)-(c) have been grouped)

(a) Do you consider that all known conditions and circumstances should be taken into account in generator bids and rebids?

(b) Do you consider the proposed rule to be practical and sufficiently clear as to when a generator must rebid following a change in material conditions and circumstances?

(c) Do you consider that rebids should only be limited to the occurrence of a significant change in conditions and circumstances? If so, how would this be achieved in practice?

AGL does not consider that it is realistic or workable to implement the proposal that generators take into account all existing material conditions and circumstances when making a bid or rebid, or to reflect those changes in rebids as soon as reasonably practicable.

Specifically, the proposal does not recognise the actual complexity of trading in the NEM or the requirement on traders to manage a number of variables including, for example, fuel cost and availability (particularly relevant to gas in the current market), physical plant availability and company decision making policy i.e. trading authority/hierarchy.

Additionally, the following questions arise; how would the regulator determine when new information was known by a participant? or determine what a reasonable time frame was for response?; or even define what a material incident is (aside from limiting rebids to advice received from AEMO)?

AGL considers that these options are clearly, operationally and administratively, impractical.

On the issue of materiality, what is material for one participant may not be for another. Box 1 provides a worked example evidence as to why this is the case.

Box 1: Difficulty in defining materiality

This example below shows how difficult it is to define what constitutes a material event. Something as seemingly innocuous as one cent change in the SA RRP to most of the market, may actually have material implications for a participant.

The South Australian region (SA) has constrained import from Victoria and the price is being set by base load Generators A and B (one station) at \$60.98. Station C has 300MW spread across multiple units bid in at a \$60.99 price band.

Generators A and B decide to do a low load test on the following day and move their generation into a higher band for the duration of the test (300MW for 10 hours).

In D+1 predispatch, Generator C now sees an increase in the SA RRP of one cent being set by it (no change in demand, availability weather etc.) but an increase in load of 300MW.

Generator C must now decide whether to purchase additional fuel to meet that predispatch, approximately 30TJ at \$150-200k.

Generators A and B cancel their test due to unavailability of staff on the following day and the D+1 SA PD drops by one cent. Generator C now has 40TJ less of a gas usage forecast for that day.

If Generator C purchased the gas to meet the previous forecast usage, then the new predispatch will indicate that the additional 30TJ purchased is now not required. It may have to burn part of the gas if it has limited facility to store it for future use (storage has a cost associated with it). If it does burn it by rebidding some MW into a lower price band, then the only published AEMO data which had changed was the SA RRP – by one cent.

Generator C waits until there is a more accurate predispatch closer to dispatch, then the timeliness of its rebid may be in question as the original one cent change was published on the previous day.

If the trader at Generator C is advised that only a portion of the required 30TJ is available to purchase, he may have to rebid a portion of his generation to a higher price to limit his gas exposure. This example shows how difficult it is to define what constitutes a material event. Something as seemingly innocuous as one cent change in the SA RRP to most of the market, may actually have material implications for a participant.

Question 5: Do you consider it reasonable that all bids and rebids should be made with reference to published AEMO data?

AGL does not consider that all bids and rebids should be made with reference to published AEMO data. This proposal does not recognise the fact that generators, when bidding capacity, are attempting to manage their own portfolio and may not be solely reliant on AEMO data to effect their trading behaviour.

Other reasons for rebidding, outside of advice provided by AEMO may include, but are not limited to, changes in weather, contract positions, unforeseen outages and fuel issues – including hourly limits on gas contracts.

Additionally, market flexibility and competitiveness within the NEM is driven, in part, by the particular knowledge, market intelligence and experience of participants. Constraining the ability of a participant to call on this experience (and the capacity to derive and test new intelligence) would materially curtail competition and innovation within the NEM.

**Question 6
(a) What are your views on any of the options discussed above? Do you consider any of these options or any other options around the design of the bidding process to better address the issues raised in the rule change request?**

AGL considers that none of the options identified will actually stop late rebidding, or deliver the flexibility and ultimately the benefits provided by the current rebidding arrangements.

As AGL noted above, the need for any changes to the current rebidding settings should only be made if it can be established that the costs of the current settings (in terms of the potential negative outcomes from late rebidding) are greater than the benefits rebidding provides – such as reduced wholesale prices. AGL does not believe this can be established, as the costs of the proposed rule change on the NEM are justifiably significant.

Additionally, implementing any changes or amendments to rebidding, must also ensure that there are no subsequent unintended negative

impacts. The scope and nature of unintended negative impacts appears extensive, and requires more detailed consideration and validation.

(b) Are there any approaches used in electricity markets in jurisdictions overseas that could provide insight into the development of options to address issues raised in the rule change request?

AGL has not identified any international approaches that could inform this rule change proposal.

In conclusion, AGL does not support the proposed rule change as it would likely have a deleterious impact on the efficiency of the NEM. This is because the proposal will likely significantly restrain rebidding practices due to the diminished flexibility and increased administrative costs that the rule change would entail.

Finally, AGL contends that any changes to the current rebidding settings must only be on the basis of proven issues with the current arrangements and not as a means by which to address other market issues such as demand response or transmission regulation.

If you have any queries about the submission or require further information, please contact Josynta Singh at jsingh@agl.com.au or on 03 8633 6628.

Yours sincerely,



Simon Camroux
Manager Wholesale Markets Regulation
AGL Energy Ltd