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4 May 2011

Ms Arianwyn Lowe
Australian Energy Market Commission
POBox 42449
Sydney South NSW 1235

Dear Ms Lowe

Submission to Application and operation of Administered Price Periods Rule Change Proposal (Ref: ERC0121)

The Australian Energy Regulator (AER) welcomes the opportunity to comment on AEMO's Application and operation of Administered Price Periods (APP) Rule Change Proposal.

The AER monitors the wholesale electricity and gas markets and is responsible for compliance with and enforcement of the National Electricity Rules and National Gas Rules. The AER is also responsible for the economic regulation of electricity transmission and distribution services as well as gas transportation services. These roles leave the AER well placed to comment on the application and operation of administered price periods. Our submission focuses on the proposed changes to clause 3.14.2(c)(3).

We agree with AEMO that clause 3.14.2(c)(3) is ambiguous and difficult to implement. We support amending, rather than removing, clause 3.14.2(c)(3), since removing the clause could potentially increase price volatility and the risk that market participants are exposed to extreme spot prices for a protracted period. The AER supports an approach where the decision to extend the APP is based on data in the pre-dispatch schedule. This approach achieves similar result to the current arrangements, but without the ambiguity and administrative difficulties associated with the current drafting.

While the AER supports the retention of an amended version of 3.14.2(c)(3), we do not consider that the current CPT/APP mechanism as a whole achieves its purpose in managing spot price risk. An APP applies only in specific circumstances based on short-term prices. Opportunities exist for generators to manipulate the price such that the cumulative weekly price comes very close to, but does not exceed, the CPT for a number of days. This suggests that generators are structuring their bids in order to maximise returns without triggering an APP. This behaviour arises because of the design of the CPT, which is calculated using only one week's worth of data.

To address such issues, there is a need to review the CPT and in particular its role as the primary risk management mechanism in the National Electricity Market.¹ The AER believes that this review could occur as part of the next comprehensive review of the Reliability Standards and Settings in 2012.

If you have any questions regarding the information in this submission please contact Mark Wilson on (08) 8213 3419.

Yours sincerely



Michelle Groves
Chief Executive Officer

¹ The AER's views on the CPT were most recently set out in our submission to the Reliability Settings consultation:

<http://www.aemc.gov.au/Media/docs/AER-fea34d07-9c2b-401f-aaae-ea77f7e63b57-0.pdf>