



Negative offers from Scheduled Network Service Providers

AEMC consults on draft rule determination

The Australian Energy Market Commission has released its draft rule determination regarding negative offers from Scheduled Network Service Providers (SNSPs). The Commission proposes to make a more preferable rule and set a lower limit for SNSP offers at the *market floor price*.

The rule change request

GDF SUEZ Australian Energy and Loy Yang Marketing Management Company's (Rule Proponents) are concerned that negative offers from SNSPs can cause some generators in the National Electricity Market (NEM) to have an effective offer that is below the market floor price, undercutting other generators.

The Rule Proponents are concerned that this leads to inefficient outcomes and have proposed a rule that seeks to restrict SNSPs from making negative price offers.

The draft rule determination

The Commission's draft decision is to make a more preferable rule that would set the *market floor price* as the lower limit for SNSP offers. This draft rule determination would not prevent Hydro Tasmania, together with a negative Basslink offer, from making effective offers below the market floor price into Victoria when constraints between the Latrobe Valley and the Victorian regional reference node bind. There has been one such instance of negative bidding by Basslink since 2010.

In making this draft rule determination the Commission has considered the following:

- There is currently no lower price limit on SNSP offers in the National Electricity Rules (NER). The Commission considers that key market parameters, such as the price floor and price cap, should be contained in the rules and subject to the AEMC statutory rule change process. This provides certainty to market participants and promotes efficiency in decision making, which contributes to the efficient operation of and investment in electricity services, in the long terms interests of consumers.
- Given the current and intended role of SNSPs in the NEM, which is to actively trade and compete with generators and scheduled load, the existing *market floor price* definition in the NER should apply to SNSPs. This is consistent with the principle of competitive neutrality, whereby different technologies in the NEM are subject to the same market floor price and market price cap.

The combination of a number of external factors, including the Tasmanian wholesale market structure, Hydro Tasmania's commercial agreement with Basslink, bidding behaviour during times of network constraints and losses, contribute to the issue raised; not negative offers per se. As such, the Commission does not consider a blanket ban on negative offers from SNSPs to be a proportionate response, given the current role of SNSPs in the NEM.

To the extent there is the prospect of future investment in SNSPs, the Standing Council on Energy and Resources may wish to consider reviewing whether the current role of SNSPs in the NEM remains appropriate, given the concerns some stakeholders have raised during this rule change process.

The Commission notes that if the future role of SNSPs in the NEM changes in response to a broader review, a different price cap and/or floor may need to be considered.

Submissions

The AEMC welcomes submissions on the draft rule determination by 7 November 2013.

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Date: 26 September 2013

**Submissions are
due on
7 November 2013.**