



“BIDDING IN GOOD FAITH” FORUM

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18 May 2015

NATIONAL ELECTRICITY MARKET

- Price volatility is a key part of a working 'energy only' market.
- Nothing inherently 'wrong' with high prices (or with low prices).
- An efficient market 'prices in' all the available information.

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- The NEM works pretty well
 - Transparency of information is high
 - Ability to react to new information in close to real time (rebid)
- Spend some time in the WEM to see a 'different' approach
 - Gate closure (2 hour)
 - Transparency is poor

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- However, the NEM does have some 'quirks'
 - 5 minute dispatch price and a 30 minute settlement price.
 - Participants don't know the price they'll pay or receive till close to the end of a half hour.
 - *(still better than the WEM when you don't know for days...)*

FILLING UP IN THE NEM ...

- An analogy ...
 - Picture yourself filling up your car with fuel at a service station.
 - You've almost filled up your car and the price rises from \$1.45/litre to \$450/litre.
 - You stop filling up as soon as you see the high price ... but you still have to pay \$5000 to fill your tank.

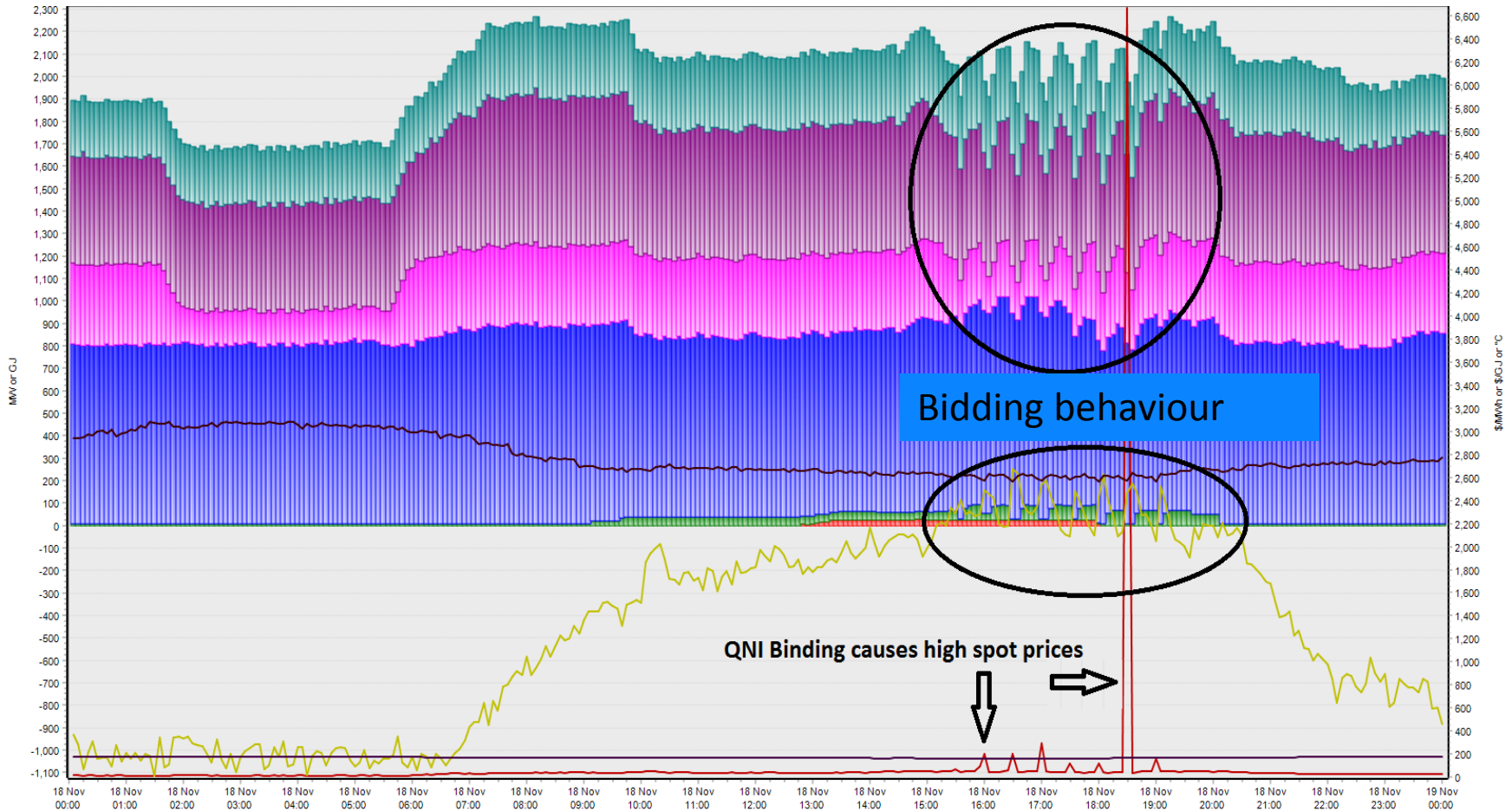
FILLING UP IN THE NEM ...

- Perhaps you'd understand if there was an unexpected shortage of fuel, or some problem you weren't aware of ...
- You'd be really annoyed if you thought the service station 'saw you coming'.
 - ... What if they waited until you came into the petrol station and then deliberately nailed you with the high price you could do nothing about as part of a cunning pre-conceived strategy.
- Not a perfect analogy, but is food for thought.

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- High spot prices toward the end of a Trading Interval, that weren't in predispach, are difficult to respond to.
 - Gas fired power stations can't start in time, and
 - Demand response is not deployed
- Rebidding has been occurring toward the end of a half hour resulting in very high spot prices.
- Higher than expected spot prices push up the forward curve, which directly impacts on customer prices.

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- Rebidding in response to change in information is entirely reasonable.
- Rebids that result in high prices is a normal part of a functioning market.
- Vast majority of rebids are entirely reasonable.
- *Deliberately targeting the end of a Trading Interval for the purpose of avoiding a competitive response is unreasonable.*

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- “Hard” gate closures are a bad idea.
 - Stop participants responding to information
 - Result in inefficient outcomes
- ERM submission:
 - If a gate closure was to be considered, ERM suggested an alternative where rebids above a price threshold are restricted within the Trading Interval.
 - Tighten up the good faith provisions to continually represent genuine intentions, and introduce ‘market manipulation provisions’
- We’re working through the detail, but the AEMC draft determination is largely in line with ERM’s recent submission.



QUESTIONS

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