

7 November 2013

Elisabeth Ross
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Draft Determination: Negative offers from scheduled network service providers ERC0140

Dear Elisabeth,

Hydro Tasmania would like to thank the Commission for the invitation to comment on the Negative offers from Scheduled Network Service Providers draft determination. We welcome the Commission's decision to treat SNSPs consistently with other market participants by explicitly allowing bidding to market floor price.

This determination makes any future SNSP investments more viable, providing more options for interconnection and addressing the risk of underinvestment identified by the Productivity Commission. It also prevents loss of contract liquidity that would have occurred had the rules been overturned to have the risk of network constraint impacts be fully absorbed by one participant instead of shared across many.

The Commission's findings also highlight the inappropriateness of proponents argument, designed for their (and only their) direct benefit and equivalent loss of another participant, without any discernible benefit to NEO. They sought to achieve this gain through imposition of unique and more restrictive set of rules on the sole SNSP in the NEM.

This approach creates a concern that more of Commission's resources could be wasted in the future if others follow the trend and seek out their competitors' unique characteristics, and design a very specific rule change tailored only to affect their competitor. Hydro Tasmania remains strongly of the view that efficient markets will treat participants on a level playing field. It is understood, however, that on this occasion determination was confused by highly technical nature of market dynamic involved with negative bidding by SNSPs, including the impact of the energy loss equation.

Hydro Tasmania disagrees with the suggestion that the problem raised by proponents will be addressed by the Optional Firm Access model, especially given the proposed grandfathering arrangements. The complexity and costs of such a scheme are unlikely to be justified by very rare instances of negative bidding by all participants. The value of such a scheme is even lower in this specific case given recent history of negative offers from SNSPs: they occurred for the total of 5min in last 4 year period.

Please contact the undersigned for any queries.

Yours sincerely,



David Bowker
Manager Regulatory Affairs