

A few
words.



16 June 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY NSW 1235
via email: aemc@aemc.gov.au

Dear Mr Pierce,

Bidding in Good Faith Rule Change – Draft Determination

Thank you for the opportunity to respond to the *Bidding in Good Faith Rule Change – Draft Determination* (the Draft Rule), which, in general terms: replaces the requirement to bid in 'good faith' with a requirement not to make false or misleading bids; adds further specific provisions that deem bids and rebids to be misleading in certain situations; and introduces a new requirement for generators to submit a report to the AER for all rebids made 15 to 45 minutes before the relevant dispatch interval.

AGL has a power generation portfolio of over 10,000 MW, which consists of base, peaking and intermediate generation plant, spread across thermal and renewable energy sources. Accordingly, AGL has a strong interest in any proposed change to the rules governing trading requirements in the National Electricity Market (NEM). AGL supports an efficient and well-functioning electricity spot market, which bidding and rebidding arrangements are an integral part of.

It is clear that the capability to rebid generation in the NEM is a critical market feature that allows wholesale market participants to continually adjust pricing in response to changing market conditions, technical plant constraints and changes to fuel and other inputs.

General comments

AGL considers that any substantive changes to the existing rebidding arrangements should be justified against a material negative market impact, and that any changes should clearly contribute to the achievement of the National Electricity Objective.

AGL largely considers that the current 'good faith' rebidding arrangements have provided significant, material benefits to the NEM since market commencement. Further, AGL contends that the current rebidding settings have contributed to market transparency by allowing participants to effectively respond to changes in market conditions, whilst also providing efficient economic signals to the market overall.

However, AGL notes the AEMC's concerns raised in the Draft Rule that incidents of 'strategic late rebidding behaviour by generators has the potential to result in inefficient price outcomes'. AGL does not contest that these events have occurred

but considers that the proposed solutions to these events are likely to create a net disbenefit to the market, as the proposed amendments negatively impact market efficiency by diminishing the opportunity for effective action on the part of traders. Further, AGL considers that the proposed changes introduce significant uncertainty for market participants as to the Draft Rule's eventual interpretation. Such uncertainty is also likely to constrain efficient actions on the part of market participants.

Finally, the Draft Rule is making significant changes to address an issue that is at the moment largely attributable to the current market structure in one jurisdiction. Addressing this isolated issue in the way proposed in the Draft Rule runs the risk of diminishing efficient rebidding being undertaken by the market more broadly.

Accordingly, AGL considers that there is little merit to the proposed changes as outlined in the Draft Rule

Specific comments

The significance of inefficient rebidding on overall market outcomes has not been clearly demonstrated against what would be a significant and disruptive change to the NEM. As noted in AGL's submission to the AEMC rebidding Options Paper, extreme caution must be exercised before pursuing any change to the rules that may negatively impact the realisation of efficient price outcomes in the market.

Should a case for change be made, AGL suggests that, the proposed clause 3.8.22A(a) taken from the Draft Rule may be effective in targeting problematic rebidding behaviour:

3.8.22A(a) A Scheduled Generator, Semi-Scheduled Generator or Market Participant must not make a dispatch offer, dispatch bid or rebid that is false, misleading or likely to mislead.

AGL is concerned that the remaining sections of the Draft Rule rely on a series of subjective statements, which have largely unpredictable interpretations, and would make operating in the NEM uncertain and complex. For example, AGL considers that it would be inappropriate for any rule change to pair the objective assessment of misleading or false behaviour with subjective elements such as a participant's *knowledge, beliefs and intentions*.

Reporting requirements

AGL questions whether a reporting requirement, which may limit participant behaviour, is consistent with the National Electricity Objective. AGL contends that the requirement to provide the AER with a 'detailed' report on any rebid made 15 to 45 minutes before the relevant dispatch interval is both unnecessary and would substantially increase regulatory burden. AGL also notes that generators are already required to provide contemporaneous explanations for rebids to AEMO, as required by clause 3.8.22(c)(2), and that the AER has powers to request *additional information to substantiate and verify the reason for a rebid* - clause 3.8.22(c)(3).

Accordingly, AGL suggests that requiring participants to lodge a separate detailed report each time a rebid occurs, within the identified window, would increase participant costs for little overall benefit. Costs would be incurred both in terms of

inefficient NEM outcomes, as generators may be dissuaded from making rebids during the reporting time (which the AEMC incorrectly note may be a positive outcome), and direct costs to generators due to the added compliance and administrative burden. For example, AGL can complete over 200 rebids within the reporting period each week. Given the possibility that each report could be used in a legal setting and hence require legal oversight, the cost of each report may be in the order of \$1000 (once prepared and cleared legally) - this could amount to a significant addition in reporting costs for AGL each year.

AGL considers that an alternative, workable approach, would be to firm up requirements for recording information for each rebid. This would be a lower cost approach that would also give the AER confidence that relevant information is available should it wish to initiate any further action.

Further information on AGL's analysis of each proposed amendments is provided in Attachment A.

In conclusion, AGL does not support substantive changes being made to the existing 'good faith' rebidding requirements because a) we do not see there is a case for change and b) the changes are not consistent with the NEO. However, we have analysed the Draft Rule and identified that clause 3.8.22A(a) could be effective – should the AEMC determine that a change is warranted and that the change would contribute to the achievement of the NEO.

If you have any questions in relation to this submission please contact Kirsten Hall, Wholesale Market Adviser, on (03) 8633 6688 or at khall@agl.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux', is positioned above the printed name.

Simon Camroux
Manager Wholesale Regulation