Hydro Tasmania
The power of natural thinking

29 October 2015

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By online submission

Dear Mr Pierce

Bidding in good faith draft determination

Hydro Tasmania (HT) welcomes the opportunity to provide comments on the AEMC's Bidding in Good Faith second draft determination. HT continues to support efforts to increase market transparency and welcomes efficiency improvements, including changes from the first draft determination.

However HT remains concerned that the proposed rule is creating undue inefficiencies for the generators that will be passed onto consumers. Market impacts of late rebids, which increase price, are undoubtedly significant at approximately $170million (as estimated by Ernst & Young), although HT believes that this figure overstates the size of the problem. The Ernst and Young report fails to identify that traders, facing significant financial penalties and greater regulatory scrutiny, will be less willing to rebid even on occasions when they are increasing generation and lowering the price of offers.

Comparing those benefits with $6million anticipated administrative costs demonstrates a net benefit. This benefit could be increased further with an alternative, equally effective and substantially less costly option as discussed below.

Excessive and unnecessary costs

Consider the Tasmanian example. The Oakley Greenwood report commissioned by AEMC identifies that HT submitted an average of over 9,000 "late" rebids per year in the sampled period. This is not surprising given HT operates over 30 peaking power stations, and frequently subdues price spikes in the NEM through its dynamic response. In the same sampled period, Tasmanian price exceeded $300/MWh (a threshold used in benefit analysis by EY) for an average of only 7 trading intervals per year. Even if one conservatively concludes that all Tasmanian price spikes were caused by late HT rebids, it follows that the proposed rule would force at least 1000 times more additional rebid recording than needed. It also follows that $6million cost could be reduced to a negligible figure if only the relevant rebids were reported.

The excessive costs can be avoided by a better focus on relevant rebids. This could be achieved by changing the proposed wording of 3.8.22(ca) from capturing "rebid during the late rebidding period" to "***significant rebid*** during the late rebidding period", where:

Significant rebid *is a rebid, or a combination of rebids in the same trading interval, submitted by a single participant, through which the offer price of more than 100MW of energy has been increased by more than $100/MWh or the same volume has been made unavailable.*

In its conclusion on cost sensitivities Oakley Greenwood offered similar advice to the commission, stating that costs would be reduced by placing a limitation on the type of rebids reported on. Oakley Greenwood expressed concern that limits could be gamed if based on rebid type (e.g. plant related), but these are not considered in the definition above. The quantitative nature of the filters proposed means that they cannot be gamed. Rebids that don't fall in this category would not significantly impact the price and hence don't warrant further attention.

The definition of a significant bid should be included in the rules to give regulatory certainty to participants.

Requirement to report what you do not know

HT believes clause 3.8.22 (ca) iii) should be removed altogether. The proposed clause 3.8.22(ca) is shown below.

> 3.8.22 (ca) A *Scheduled Generator*, *Semi-Scheduled Generator* or *Market Participant* who makes a *rebid* during the *late rebidding period* must make a contemporaneous record in relation to the *rebid*, which must include a record of:
>
> (i) the material conditions and circumstances giving rise to the *rebid*;
> (ii) the *Generator's* or *Market Participant's* reasons for making the *rebid*;
> (iii) the time at which the relevant event(s) or other occurrence(s) occurred; and
> (iv) the time at which the *Generator* or *Market Participant* first became aware of the relevant event(s) or other occurrence(s).

The courts and the regulator will undoubtedly undertake detailed analysis and compare the time at which the relevant event(s) leading to a late rebid actually occurred, as required under proposed 3.8.22 (ca) iii), compared with the time trader first became aware of relevant events(s) as per 3.8.22 (ca) iv).

However, 3.8.22 (ca) iii) is effectively asking the trader to research and record, in real time, how much earlier they should have known about the event, but did not. Commission should note that AEMO does not keep historic record of pre-dispatch run outcomes, most common cause of rebids, in the Infoserver database. A trader would have to manually extract this data from .csv files on AEMO's website, which would reduce response time to impractical levels and hence reduce market efficiency, for no benefit. It is far more appropriate that such research is done by the regulator after the event.

Conclusion:

HT considers there are two significant improvements which could be made to the draft rule to reduce the costs of implementation without affecting the effectiveness of the rule. These are:

- Only require reporting for **significant rebids** as defined above
- Delete clause 3.8.22 (ca) iii) which requires a participant to report when an event actually occurred

If you have any questions in relation to this submission, please contact David Bowker on (03) 6230 5775.

Yours sincerely

David Bowker
Regulatory Manager