



Hydro Tasmania
the renewable energy business

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Dr John Tamblyn
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Australian Energy Market Commission
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Email: submissions@aemc.gov.au

Dear Dr Tamblyn,

Contingency Administered Price Cap Following a Physical Trigger Event

Thank you for the opportunity to comment on this Rule Change proposal made by the NGF.

Hydro Tasmania has a number of concerns with the current rule change proposal to intervene in the market under a non credible contingency event trigger event. These concerns surround the following issues:

- i) Management of market risk;
- ii) Intervention in the market – loss of market signal;
- iii) Trigger levels - Material Impact on Dispatch;
- iv) Ability of NEMMCO to implement as defined;
- v) Technological and locational investment signals; and
- vi) Creation of new unforeseen risks.

i) Management of market risk

The rule change proposal states “market intervention is only justified following a power system disruption where risks would otherwise be both substantial and unmanageable”. There are a number of ways market participants, including generators, may manage risks in the market including, but not limited to:

- location of generation in the system;
- reliability and availability of plant;
- diversification of generation mix in the system;
- demand side management (inter-ruptability products);
- contracting portfolio (composition and level);
- force majeure provisions in contracts;
- Inter-regional settlement residues;
- weather derivatives;
- risk sharing arrangements (co-insurance); and

- Cumulative Price Threshold (CPT) arrangements.

There is a trade-off each participant undertakes in balancing its assessment of the risks and rewards. There is a range of options for participants to mitigate various risks, whether one is prepared to pay the market premium is a question for each participant to assess. One would expect any assessment to incorporate the risks associated with non credible contingency events.

The NGF paper states “the litmus test for intervention should be that the risk is both substantial and genuinely unmanageable.” It highlights “if the risk is manageable market intervention creates moral hazard”. Hydro Tasmania supports this conclusion. Hydro Tasmania believes there are numerous options open for prudent market participants to manage risks associated with non credible contingency events. Managing these risks may create other risks, however, that is a decision for each market participant to assess. However, market participants that have invested in generation and/or physical/financial products to manage this risk should not be penalised.

It would appear an extreme proposition for any market participant that the risks based upon the proposed thresholds (section (iii) trigger levels – material impact on dispatch) are substantial and unmanageable.

ii) Intervention in the market – loss of market signal

The current proposal highlights a number of efficiency improvements as a result of the proposed rule. Hydro Tasmania seriously questions these conclusions as any intervention in the market results in the loss of a market signal with the potential to distort market outcomes. The concept of efficiency improvements is extremely questionable given the following;

- i) There would appear to be significant quantities of demand (inter-ruptable load) available in the NEM that have the ability to respond to price signals. This response, while evident in the market, is not bid into the market and often happens at price signals in excess of the current price cap. This incentive may be foregone under a range of scenarios under the current proposal reducing the reliability and efficiency of electricity supply.
- ii) The incentive for some peaking plant to quickly respond may also be foregone should the cap trigger be implemented. While NEMMCO may direct plant, the incentive for individual participants to respond in a timely manner may be lost. This may lead to additional market intervention with directions to participants to make generation available.
- iii) The loss of the market signal (capping at \$300 per MWh) based upon the currently proposed intervention is not dependent upon any unserved energy trigger. In fact the loss of 300 MW of generation in a region such as South Australia has the ability to effectively cap prices in all regions, should all inter-connector flows separating a region be toward South Australia. ie there is the potential for Queensland price to be capped at \$300 per MWh (may have previously trading at \$9,900 per MWh) without any change on dispatch in this region as a result of the rule change.