



AEMC Public Forum: Potential Generator Market Power in the NEM

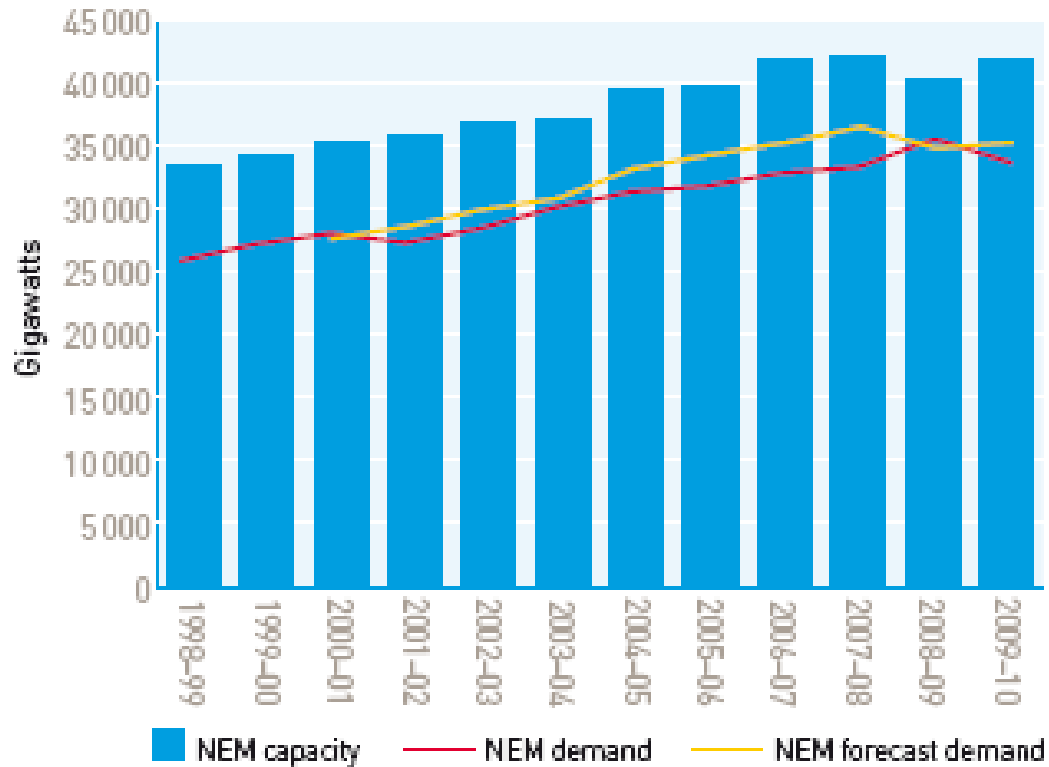
This presentation is not a formal position.

This presentation is a collation of initial perspectives on the AEMC's Directions Paper which will be built upon by individual companies or in group written submissions.

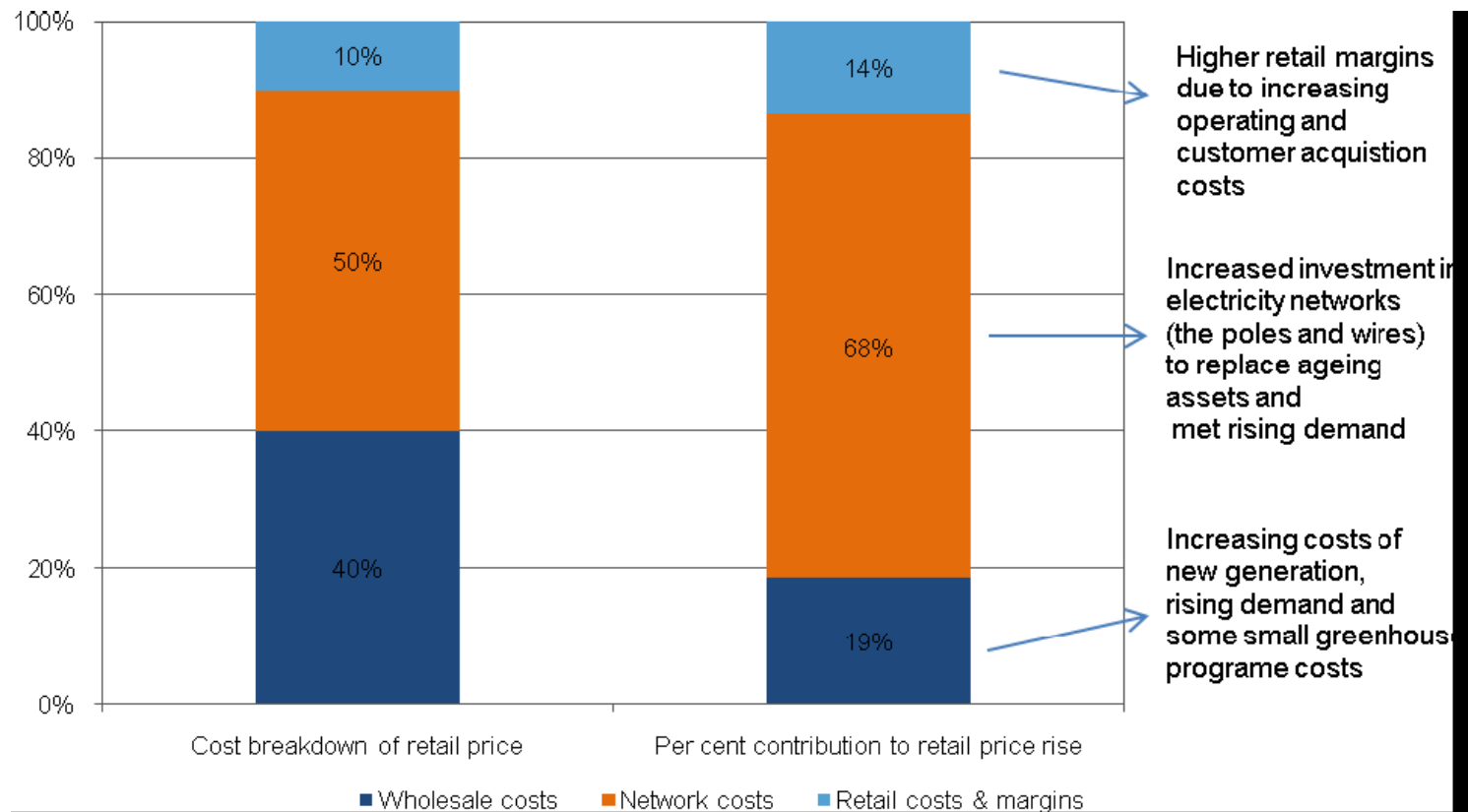
The market continues to deliver efficient outcomes

- No evidence of a problem
 - Wholesale prices
 - Strong contract markets
 - Multiple players and investors
 - Current high prices not related to wholesale energy
- History of new entry –
 - Retail competition
 - Generation sector
- New investment often follows price

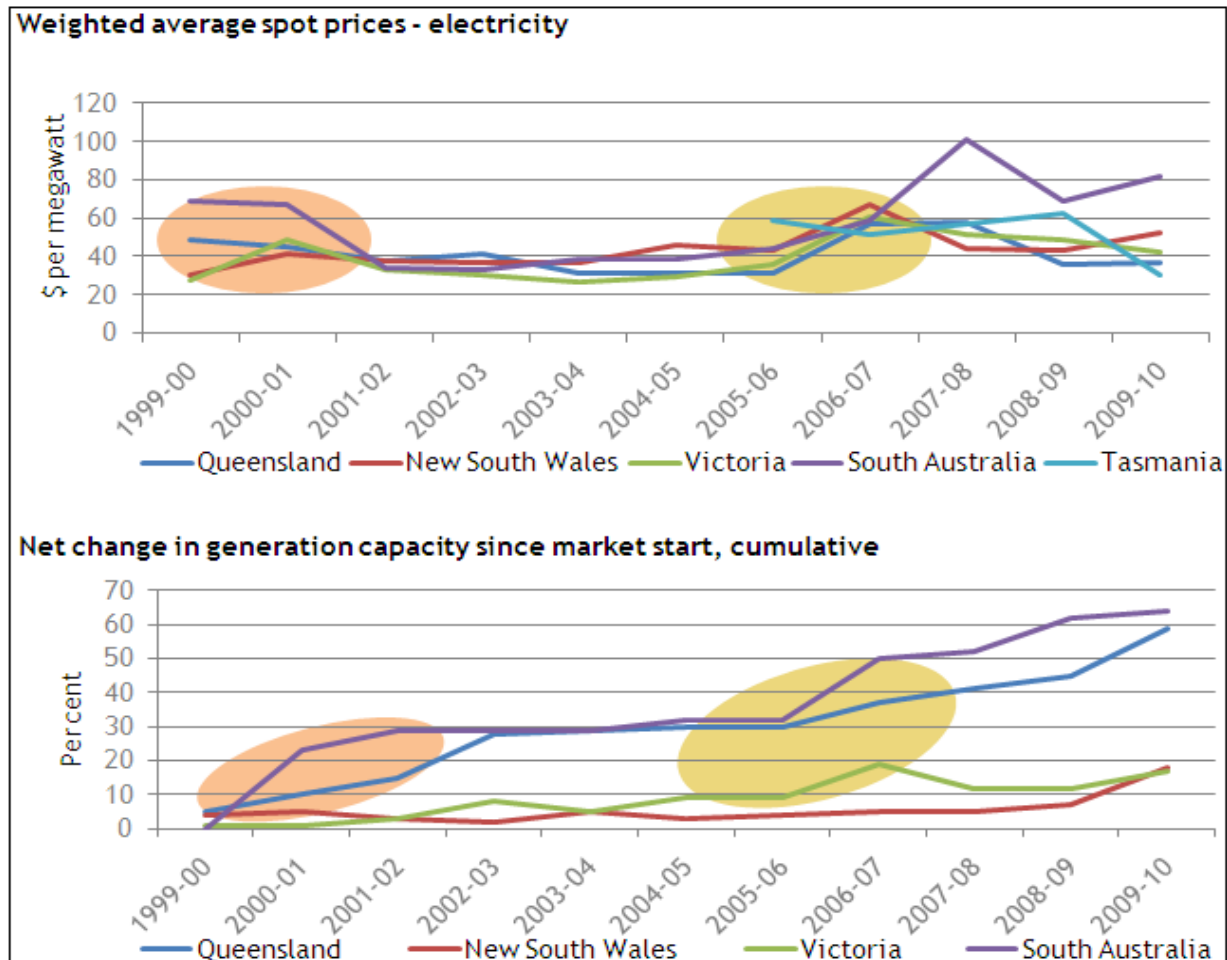
Reliability of supply



Wholesale energy not the source of price shocks



NEM new generation entry and prices





The MEU proposal would reduce efficiency

- Inhospitable investment environment
- Impede new entry
- Fundamentally change market
- Undermines price discovery
- Undermines efficient market outcomes
- Is a risk management tool (not market power)

AEMC methodology

- Acknowledge AEMC due diligence
- Support:
 - Concept of substantial market power
 - Position on SRMC
 - Position on workable competition
 - Transient pricing power and spikes as market features
 - A clearly articulated assessment framework
- However, a number of concerns remain which undermine application

Definitional issues

- Market power
 - Inclusion of “able or likely to be able”
- Market
 - Market mechanism (NEM) and “Market”
 - Broader market necessary, but complicates analysis
- Timeframes
 - Choice is not between one or three years
 - Five year likely to be more appropriate

Barriers to entry

- Absence of identified barriers to entry
- Material barriers to entry are a pre-condition to market power
- Barriers to entry also needs to include the broader market
- Consideration of NEM record on new entry
- Treatment of:
 - “strategic barriers” inconsistent
 - transmission and investment framework deficiencies considered directly

LRMC approach and SSNIP

- Application to workable competitive market
- LRMC of the “market” versus other methods
- LRMC of marginal investor in single plant
- Backward v forward-looking indicators
- Not justifiable basis for intervention
- SSNIP –
 - Definitional tool - Narrow markets
 - Region and product issues
 - Low hurdle rate

Conclusion

- Welcome the thoroughness of approach
- Welcome perspectives on workable competition
- Perspectives need to translate to next stage
- Encourage a quick resolution of the process
- Ongoing uncertainty does not support the investment environment