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Mr John Pierce
Chairman
The Australian Energy Market Commission
PO Box A2449
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Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's draft determination regarding the bidding in good faith rule change.

As South Australia has previously stated, it is broadly agreed that rebidding is an essential element of the National Electricity Market (NEM) design. Generators require the flexibility to adjust their positions to accommodate unexpected changes in demand patterns and plant availability, and for this reason the NEM design includes provision for a generator to rebid.

However, whilst the NEM design needs to clearly provide for the flexibility to rebid, another key element of the NEM design is the need for pre-dispatch forecasts which can be relied upon by market participants including generators, transmission network service providers and customers.

Pre-dispatch forecasts assist customers to determine whether they need to consider forward contracting or to prepare for demand side response, and are becoming more important as the market continues to evolve. Recent developments will result in more participants becoming reliant on accurate forecast information.

In our view the importance of reliable pre-dispatch information continues to be an important feature of the bidding provisions, and associated with this is the importance of the requirement for bids to be made in good faith.



The analysis undertaken by the Commission's consultants concluded that the more widespread occurrence of late rebidding, and rebidding towards the end of trading intervals, has increased in recent times in some jurisdictions. This behaviour creates difficulties for other generators and consumers to physically respond and, as the Commission states, can have the effect of significantly increasing the price in the final dispatch interval and also contribute to a reduction in the amount of demand response that is available. This evidence adds further weight to the case that rule amendments are required to ensure the recent increase in late generator rebidding are due to genuine reasons.

South Australia's initial rule change proposal aimed to strengthen the current regulatory framework through providing greater clarity to generators and market participants regarding the meaning of bidding and rebidding in good faith to ensure generator bidding and rebidding practices are consistent with an efficient, competitive and reliable market.

While the Commission's draft determination does not adopt South Australia's rule change proposal in its entirety, I am generally supportive of the draft recommendations as they adopt a number of elements of the rule suggested by South Australia. I believe the draft recommendations are consistent with South Australia's intent in terms of the effect they seek to have on bidding practices and will therefore be an improvement on current arrangements.

I agree with the Commission that the proposed reporting requirements for late rebids should assist in preventing generators from deliberately delaying rebids in order to preclude other participants from responding. While the incentives to rebid in this manner should be reduced by this proposal, I consider the reporting process should not be an overly difficult exercise and therefore not impose a significant burden on generators where there is a definite need to make a late rebid.

The specific content of the late rebidding reports, to be determined by the Australian Energy Regulator (AER), will provide greater clarity to industry on the type of information to be maintained. South Australia considers that this should ensure the requirements are a balanced response that is not too onerous on participants, while also in the long term interests of consumers. The inclusion of a provision for the AER to have discretion to exempt a participant from this reporting obligation also demonstrates that the draft determination provides a balanced response to this issue.

Although the draft rule determination generally incorporates many of the key elements of the initial rule proposal, there is one matter within the Commission's proposal that raises concern.

South Australia maintains its initial view that a trader's subjective expectations should not be viewed as a market condition, a change in which can result in subsequent rebids, and that the rules should be clear on this matter.

If a market participant truly has an intention to honour its bid or rebid at the time it is made, it follows that some change must occur for a market participant to want to submit a rebid. A trader's subjective expectation of the effect of a rebid should not, however, be considered as part of the market circumstances on which the rebid was based, and therefore the non-fulfilment of a trader's subjective expectations should not be considered a change in market circumstances, and therefore justification for another rebid.

It suggests that even if the dispatch price was unchanged, this may represent a change in market circumstances. It is therefore concerning that, in this instance, the rules as proposed cannot prevent or hinder repeated attempts by a trader to cause price spikes by shifting capacity into higher price bands.

Further, it will be very difficult to determine when a trader's expectations changed and therefore, if a rebid is based on this change, it would be impossible to determine if the rebid was made as soon as possible after this occurred.

Despite concerns regarding this one matter, South Australia supports the Commission's draft determination.

Thank you again for the opportunity to comment on the draft rule determination. Should you have any questions in relation to this submission, please contact Ms Rebecca Knights, Director – Energy Markets, Energy Markets and Programs Division on (08) 8226 5500.

Yours Sincerely



Hon Tom Koutsantonis MP
Minister for Mineral Resources and Energy

21st June 2015