



## Australian Energy Market Commission

Level 5, 201 Elizabeth Street Sydney NSW 2000  
PO Box A2449, Sydney South NSW 1235

P – 02 8296 7800

F – 02 8296 7899

E – [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

ABN 49 236 270 144

[www.aemc.gov.au](http://www.aemc.gov.au)

Our ref: ERC0123 / 12-5161

12 March 2012

Mr Russell Skelton  
Chief Executive & Managing Director  
Macquarie Generation  
PO Box 38  
HUNTER REGION MC  
NSW 2310

Dear Mr Skelton

### Attributed comments in the Australian Financial Review

As you will be aware the AEMC is currently considering a rule change request from the Major Energy Users Inc. (MEU) relating to potential generator market power in the National Electricity Market (NEM). As part of its consideration of this rule change proposal the AEMC is investigating whether there is evidence of the existence of substantial generator market power in the NEM.

The AEMC considers "substantial market power" in the context of the NEM as the ability of a generator to increase annual average wholesale prices to a level that exceeds long run marginal cost, and sustain prices at that level due to the presence of significant barriers to entry.<sup>i</sup>

In this context the AEMC noted comments that were attributed to you in the Australian Financial Review on 29 February 2012 in an article by Marcus Priest titled "Carbon tax hit threatens price blowout". In particular the AEMC noted the following extract from that article;

"If you have a \$500 million bill you have to absorb 20 per cent, so there is \$100 million right there and our projected profits this year are \$100 million."

As a result, Macquarie is considering options to stay profitable which include reducing output to increase the price of power on the National Electricity Market. "We have done it in the past to respond to varying market circumstances," Mr Skelton said. "To the extent wholesale prices increase, you would expect it would increase the price to consumers."<sup>iii</sup>

Can you please confirm if the extract is an accurate reflection of your comments.

If the extract is an accurate reflection of your comments it seems to support some of the views expressed by the MEU in its rule change proposal in relation to generator behaviour. To aid the AEMC's assessment of the rule change proposal and reconcile comments made in submissions, we are seeking further information on the previous occasions when Macquarie Generation reduced output to increase the wholesale electricity price in the NEM. The materiality of these events is relevant to the Commission's consideration of the rule change proposal. In this context we request information as to when they occurred, the amount by which Macquarie Generation reduced its

output, the output of Macquarie Generation that was dispatched and the spot price at the time of dispatch.

We would also like you to describe the future circumstances in which you consider that you may be able to reduce output to increase the wholesale electricity price to increase Macquarie Generation's profits.

Macquarie Generation, through the National Generators Forum (NGF), made submissions to the AEMC's as part of the MEU's rule change proposal. While recognising that the submissions were on behalf of the NGF, it would be helpful if you could confirm whether you consider the extract attributed to you in the Australian Financial Review is consistent with the views expressed in the submissions.

As you will be aware, the AEMC must follow a statutory timetable to consider rule change requests. Therefore, we would like you to respond to this letter by 23 March 2012.

In accordance with our normal practice we will publish this letter and your response on our website.

If you have any questions in relation to this matter please contact me on (02) 8296 7800.

Yours sincerely



Steven Graham  
Chief Executive

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<sup>i</sup> Australian Energy Market Commission, *National Electricity Amendment (Potential Generator Market Power in the NEM) Rule 2011*, Directions paper, AEMC 22 September 2011, Sydney

<sup>ii</sup> M Priest, 'Carbon tax hit threatens price blowout', Australian Financial Review, 29 February 2012, p1

cc: Mr Lucio Di Bartolomeo, Chair and Non-executive Director