

Our Ref: 12773699
Your Ref: ERC0332
Contact Officer: Chris Ridings
Contact Phone: 08 8213 3487
Date: 15 October 2021

Ms Anna Collyer
Chair - Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Collyer,

Updating Short Term PASA – Consultation paper

The Australian Energy Regulator (**AER**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) *Updating Short Term PASA Consultation paper*. This rule change proposal aims to update Short Term PASA (**ST PASA**) taking into account existing practice along with the Australian Energy Market Operator's (**AEMO**) ongoing ST PASA replacement project.

In February 2020 the AEMC made a final rule amending Medium Term PASA, which included the requirement that AEMO publish availability information at the dispatchable unit identifier (**DUID**) level. In a submission to the consultation stage, the AER raised concerns that this approach could lead to coordinated exercise of market power. The AEMC subsequently engaged Houston Kemp to analyse the issue and concluded that this risk was immaterial as the necessary conditions for collusion were not likely to hold.

However, we consider that a different risk arises with publishing information at the DUID level in the ST PASA time frame. The publication of more granular information at close to real time poses the risk of a generator exercising market power. Under the present market, a generator may seek to exercise market power by withdrawing capacity from the market. In response, the dispatch engine will move up the merit order to call on more expensive generation. If there is an abundant supply of available generation in the merit order near the current spot price, a generator may find that even a moderately large withdrawal of capacity would have little impact on the price. It would therefore be unwilling to seek to withdraw capacity. Under these conditions the generators in the market have an incentive to behave competitively (that is, to offer all of their output to the market). However, if a generator was aware that the next most expensive generator in the merit order was not available, it might have a strong incentive to exercise market power by withdrawing capacity from the market. In other words, knowledge about the shape of the merit order or supply curve can be valuable and profitable for a generator with market power.

All wholesale power markets need effective short-term price forecasts to achieve overall efficient outcomes. In this respect, the AER does recognise the potential benefits of increased transparency within the ST PASA time frame. As the energy system transitions to greater levels of weather dependent renewable penetration, it is important that market systems are designed to respond to supply side events which may change at short notice. Increased ST PASA transparency may therefore facilitate the ability of the market to forecast and respond to changes with additional flexibility and responsive capacity at short notice.

Relatedly it may also assist AEMO in operating the system in circumstances where supply dynamics change quickly.

Whilst recognising these potential benefits, the AER nevertheless recommends that the AEMC also consider examining any potential market power effects and risks which would cause costs to consumers, and to what extent the scope and granularity of information provided impact these.

We thank the AEMC for accepting our late submission to this rule change process. If you have any questions about our submission, please contact Chris Ridings on 08 8213 3487.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'M Feather', written in a cursive style.

Mark Feather
General Manager, Strategic Policy & Energy Systems Innovation
Australian Energy Regulator