

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



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**RE: National Electricity Amendment (Bidding in Good Faith)
Rule 2014 – Options Paper**

AEMC Ref: ERC0166

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Dear Commissioners,

Thank you for the opportunity to comment on the Options Paper for the proposed change to the National Electricity Rules (NER).

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities like electricity impacts greatly and disproportionately on vulnerable and disadvantaged people. Our advocacy is informed by our members; organisations and individuals who witness these impacts in our community.

SACOSS made a detailed submission to the Consultation Paper for this rule change in May 2014 that emphasised our concerns regarding the exercise of market power in South Australia.

We note that the Options Paper shows South Australia ranking highly in the impacts of late rebidding in the analysis from ROAM, Oakley Greenwood and AEMO (pages 37 and 38). Further we note that in the analysis of ROAM, Oakley Greenwood, AEMO and the AER the prevalence and impacts of late rebidding seem to relate mostly to SA, Queensland or Tasmania – the regions with interconnections to only one other.

Overall, we remain of the view that while the rules allow for the behaviours described in the rule change and the Options Paper, it is structural issues that determine the extent of the impacts in any given region. We note that the AER's 2014 State of the Energy Market report again reports on the "residual supply index" – a measure of how often a region's largest generator is "pivotal" (that is; it must be dispatched to meet market demand) – and highlights the key structural issue for SA¹:

"Among the regions, the largest generator (AGL Energy) was most pivotal in South Australia, and the need for it to meet peak demand increased in 2013–14."

We also strongly agree with the Commission that "... much of the impact on participants from late rebidding behaviour may in fact occur through the effect on the prices of financial hedge contracts." We believe this is particularly important in the South Australian context

¹ AER State of the Energy Market 2014 page 57

due to the extent of vertical integration and relatively low level of liquidity in the local hedge markets².

Due to these and other structural nuances between regions, the optimal solution for SA may not be the one deemed most appropriate to apply NEM-wide. Our preference is the solution that delivers effective competition in the SA circumstances even if that results in slight inconsistencies between regions.

We note that the Commission is canvassing two groups of options – a behavioural statement of conduct and restrictions on rebidding close to dispatch. SACOSS supports a strong statement of conduct just as we support the concept of “bidding in good faith” but we are of the view that such an approach remains difficult, if not impossible, to enforce. In our view, the appropriate regulatory response must also include some enforceable restrictions on late rebidding. The selection of an appropriate time window in which to restrict rebids should be guided by the needs of efficient demand response. In our view, demand response has significant potential to add much needed competition at peak times and improve efficiency of the market. This rule change targets important barriers to unlocking this potential.

In summary, SACOSS:

- Supports restrictions on rebidding close to dispatch;
- Believes this time window should be set based on the needs of efficient demand response;
- Supports a solution that can be tailored to the circumstances in different market regions

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,



Ross Womersley
Executive Director

² AER State of the Energy Market 2014 page 53