



Bidding in Good Faith

Presentation to AEMC public forum on
“the nature of the problem”

18 May 2015

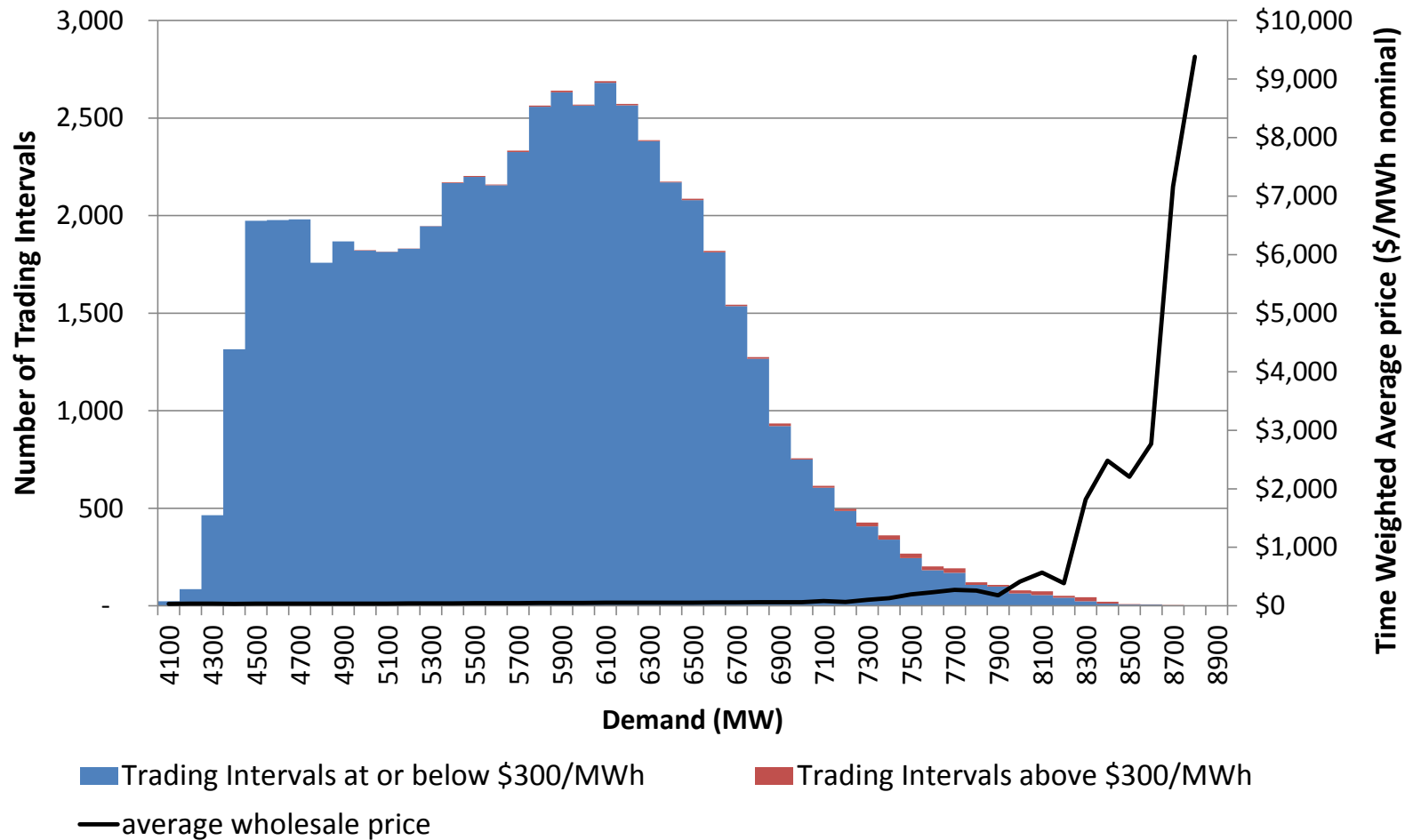


“in good faith” has become “late rebidding”

- The AEMC appear concerned that a deliberate delay in submitting a rebid until very close to dispatch impacts the ability of the market to reach an efficient equilibrium.
 - Referred to as “late rebidding” but should be “delayed rebidding”
- Stanwell agree that such behaviour is undesirable.
 - However we believe it is very rare.

Some perspective

Queensland 2012 to Q1 2015



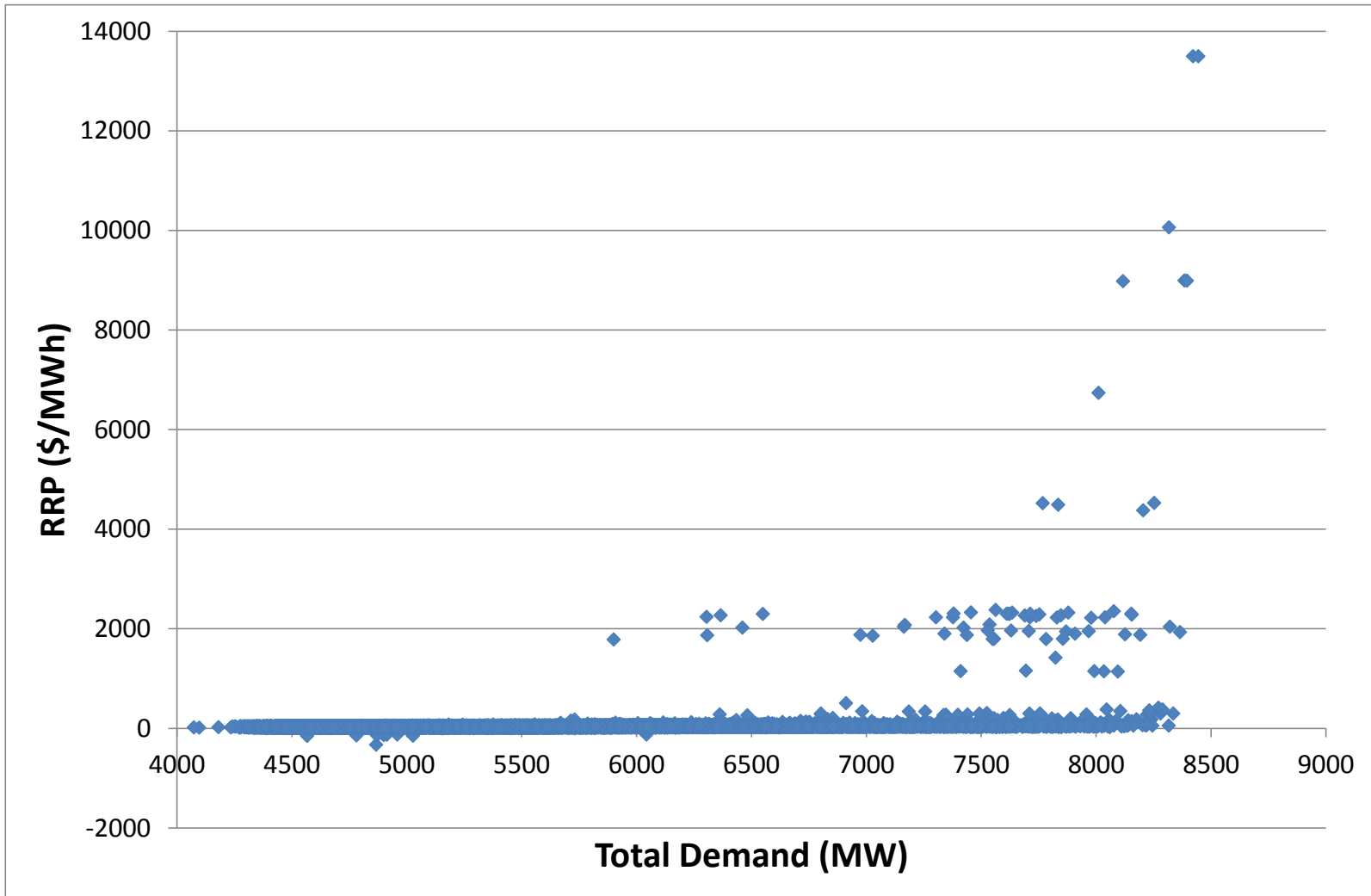
AEMC draft decision aims to improve the efficiency of future investment by attempting to alter *some* of the red area through the imposition of additional regulatory burden and risk on *all* periods

Timing of high prices

	Number of Dispatch Intervals > \$300/MWh	% in Dispatch Interval 6	Total cap payout
2012	125	29%	\$0.79/MWh
2013	615	18%	\$7.04/MWh
2014	165	44%	\$10.36/MWh

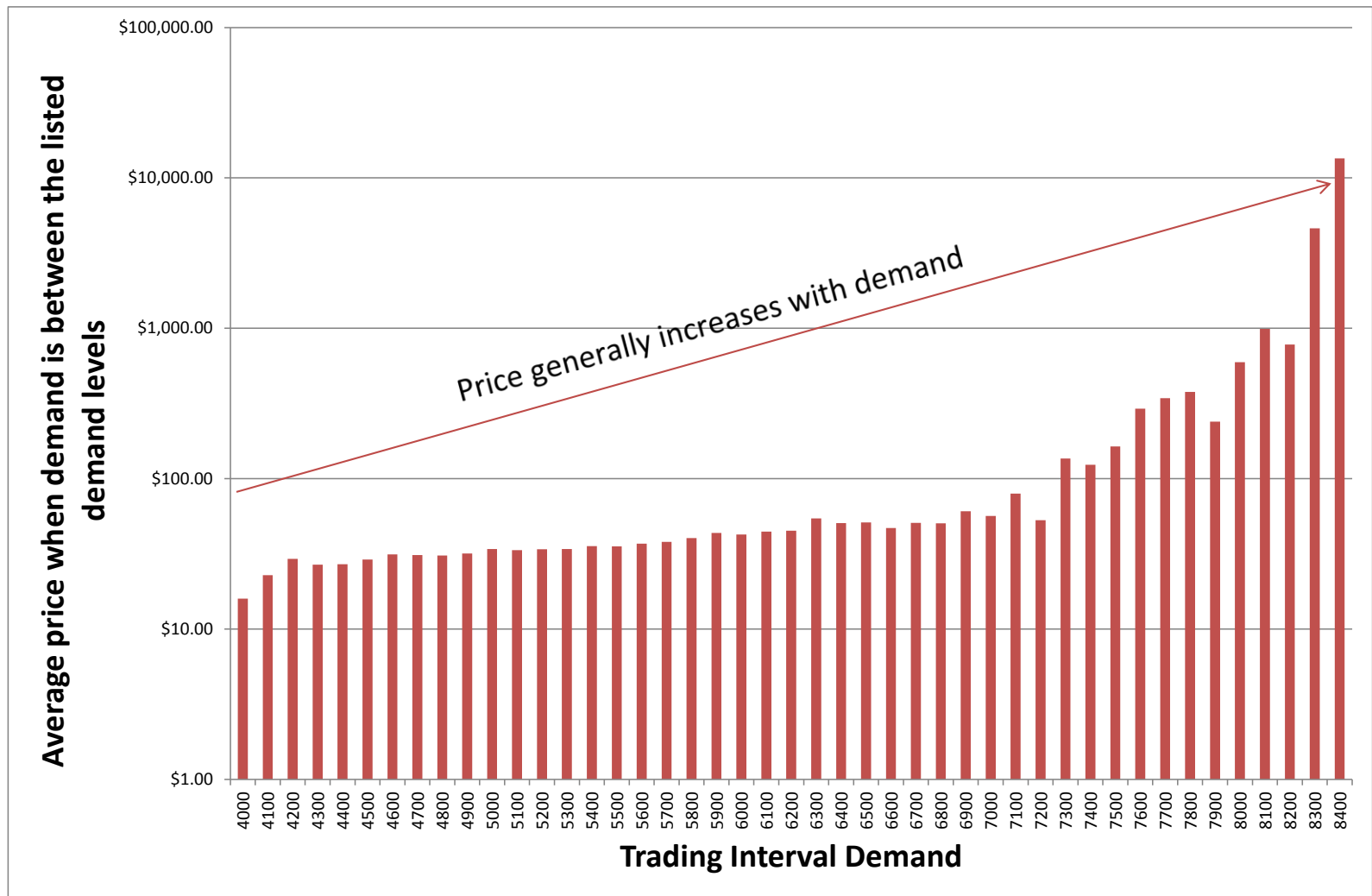
- Some of those high prices are affected by bidding close to dispatch.
- Yarrow confirms that the efficiency of a price is not related to its level.
- Price setting is an extremely complex process, but NEMDE is specifically designed to produce dispatch interval prices which represent the genuine conditions of supply and demand
- **If demand is high for a trading interval, but only some dispatch intervals exhibit high prices, which ones are “efficient”?**

Queensland demand and price (2014)



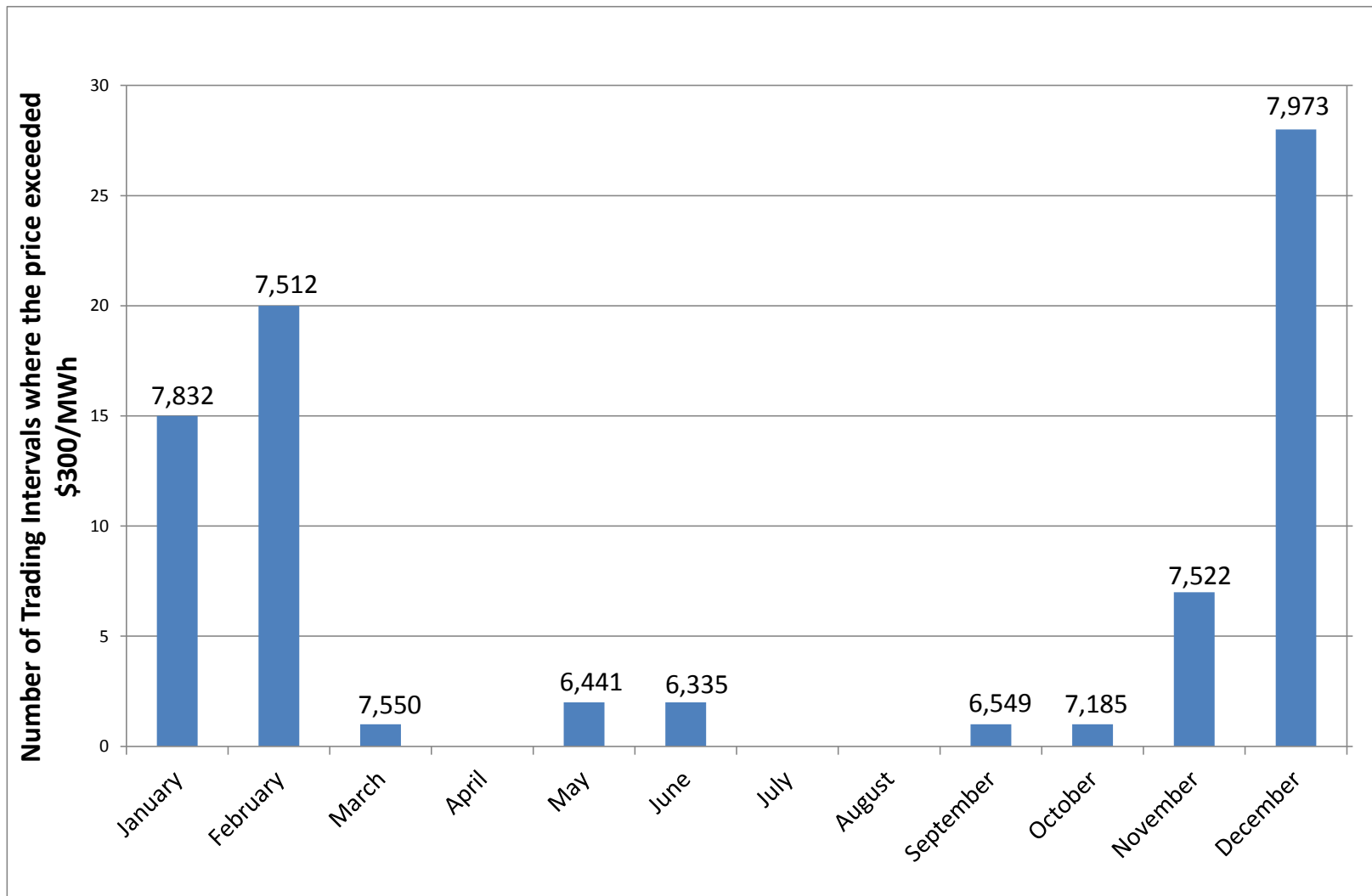
In 2014, 87% of the prices greater than \$300/MWh occurred in the top 5% of demand.

Queensland demand and price (2014)



There is an extremely strong correlation between price and demand in Queensland in the absence of network constraints

Queensland demand and price (2014)



Less than 0.5% of intervals were over 8000MW, but more than half the value of a \$300 cap was generated during these periods

Addressing the NEO

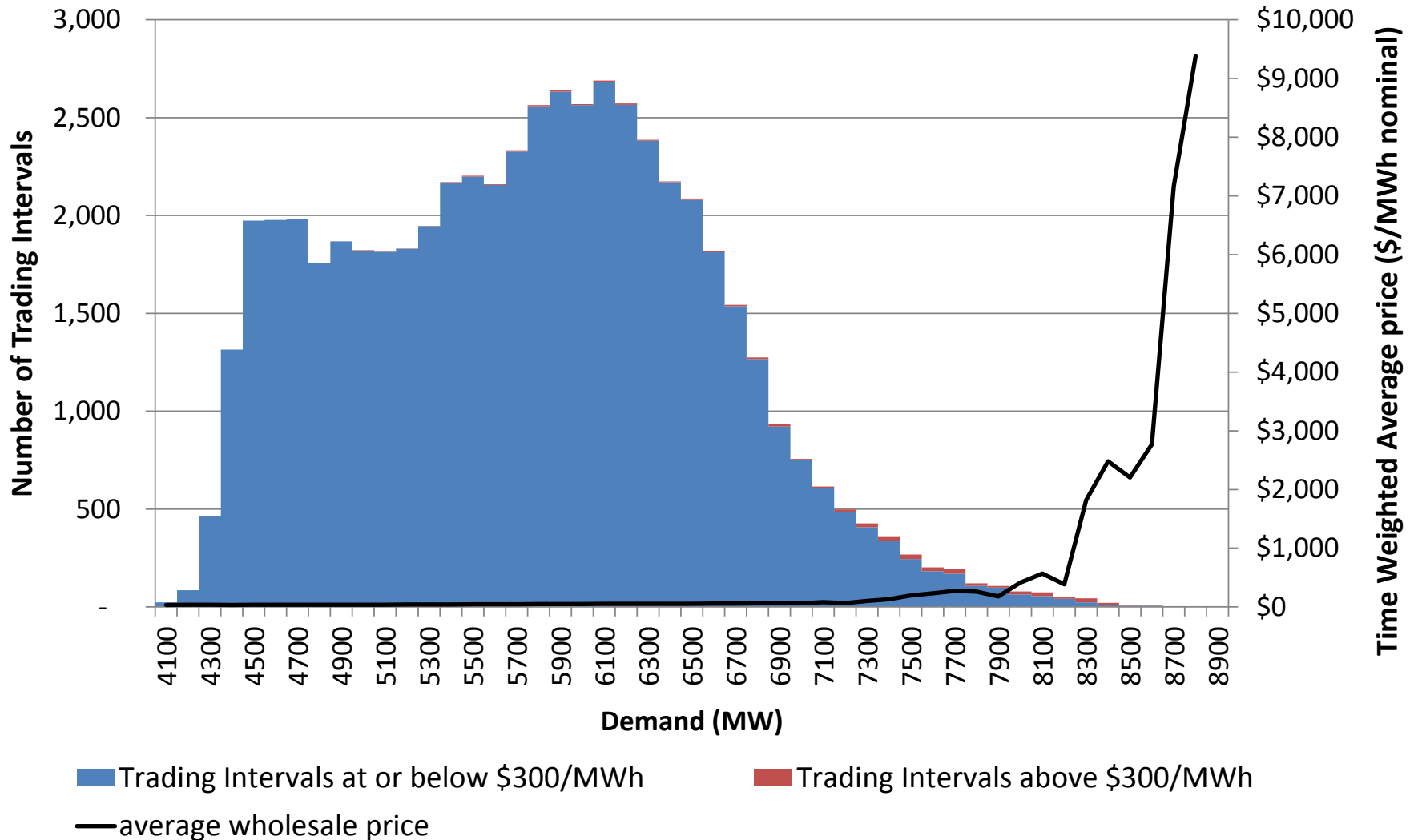
- The AEMC's draft decision aims to

“...lead to more efficient wholesale price outcomes in the short term and create efficient signals for investment in supply and demand side over the longer term, thereby lowering the price of electricity...”

- 2014 demand weighted average price (ex carbon) was \$45/MWh - in line with public estimates for LRAC/LRMC of generators
 - 2013 was slightly higher while preceding years were lower.
- If consumers are paying approximately the efficient cost of production, and below the cost of (unsubsidised) new entry, is a making a change in the long term interests of consumers?
- The NEO does not require that specific commercial strategies adopted by participants or consumers deliver benefits in the short or long term.

Is the cure worse than the problem?

Queensland 2012 to Q1 2015





Thank you

