TRUenergy Pty Ltd
ABN 99 086 014 968
Level 33
385 Bourke St
Melbourne
VIC 3000

Ms Arianwyn Lowe
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW, 2000
Australia

online: http://www.aemc.gov.au

12 May 2011

Dear Arianwyn,

National Electricity Amendment (Application and Operation of Administered Price Periods) Rule 2011

TRUenergy appreciates the opportunity to provide a submission on the proposed National Electricity Amendment (Application and Operation of Administered price Periods) Rule 2011.

Question 1

What would be the likely impact and materiality of the impact on pricing outcomes and availability of services between the following alternatives:

(a) an APP triggered by high ancillary service prices commences in the dispatch interval immediately following the dispatch interval in which a breach of six times the CPT occurs?;

(b) an APP triggered by high ancillary service prices commences at the beginning of the next trading interval following the trading interval in which a breach of six times the CPT occurs?; and

(c) an APP triggered by high ancillary service prices is applied retrospectively at the beginning of the trading interval in which a breach of six times the CPT occurs?

TRUenergy agrees with the Proponents proposal to cap prices in the dispatch interval immediately following the dispatch interval in which a breach of the six times the CPT occurs. TRUenergy submits that option (a) above supports the National Electricity Objective (NEO) more so than the status quo or the other options. Option (a) would improve the efficient operation of the market by ensuring consistency between the method in which ancillary service prices are calculated (5 minutes dispatch interval as opposed to a 30 minute trading interval) and also provide price certainty by not applying prices retrospectively. This reduces risks to participants, and makes it more likely that they will participate in the ancillary services markets thus improving reliability and security of the system.

Question 2

What would be the likely impact and materiality of the impact on pricing outcomes and availability of services between the following alternatives:

(a) capping all MAS prices within an APP-imposed region?;

(b) capping all MAS within an APP-imposed region and also capping ancillary service prices for a region exporting MAS to the APP-imposed region or, from an administrative perspective, all regions?;

(c) in the case where a lower (or raise) MAS brought on an APP in a region, capping only the four lower (or raise) MAS within that region?; and
(d) capping only that MAS which caused an APP to be applied?

TRUenergy submits it is important to consider the perceptions that can be created and how this may impact on long term investment decisions.

The interaction between energy and the eight ancillary services markets is complex for a number of reasons. The required technical characteristics of each service, the technology of the plant providing these services, the co-optimisation process in NEMDE and the commercial trade-off decisions of participants make it very difficult to predict what may or may not occur once a APP is triggered. It is possible to construct any range of situations with a range of outcomes within the context of a real time reliability and security assessment.

Therefore it would be wise to take a step back and consider what investment signals are sent via ancillary service pricing. There are a number of upfront and ongoing costs when considering the supply of ancillary services, these include the selection of plant that has the technological capabilities of providing the service, the installation of relays and metering to support ancillary services, the regular testing of plant responsiveness and the ongoing monitoring of the spot market for the offering of ancillary services into the market. The costs need to be offset by a revenue stream from the sale of ancillary services.

Clearly when a APP for an ancillary service is triggered then there has been a period of high prices proceeding that time, and that a large amount of revenue has been earned for that particular service (relative to the normally low ancillary service prices). The reality is that for an ancillary service provider most of the revenue is achieved in a short time frame (similar to that of an unhedged peaking generator. TRUenergy's concern is that not all plant capable of providing ancillary services provides all the eight ancillary services. For example peaking generators may only provide delayed raise as it takes time to synchronise to the network, they are unable to provide any lower service nor the regulation or the faster contingency services. Therefore there is a risk that if all ancillary service were capped due to one service exceeding the CPT it reduces the revenue stream available to a provider of another service. The perception of this risk may have a bearing onto the investment decision and ultimately the availability of services to the market impacting on system security and reliability.

For these reasons TRUenergy supports option (d), the capping of the MAS that caused the APP to be triggered and that the Rules are drafted to remove any ambiguity of that intent. However we recognise that to quantify the benefits and costs of the operational and investment decision is difficult for such rare events. Therefore we suggest that at a minimum the AEMC seek to remove any ambiguity in the Rules regardless of the option selected by the AEMC in light of its assessment of the relevant issues.

<u>Question 3</u>
What would be the likely impact and materiality of the impact on price volatility in both the energy and MAS markets if clause 3.14.2(c)(3) was removed?

Our view is that clause 3.14.2 (c) (3) should be amended as outlined in option 3(b) of the details of the Rule change proposal. Our rationale is that this will improve the efficient operation of the market. Removing the AER from the decision making process is a practical suggestion. Given that the circumstances in which Cumulative Price Thresholds (CPT) are triggered are infrequent and often the result of a number of technical issues and constraints, it could be difficult to expect the AER to make an informed decision within the context of a real time market decision making process. Furthermore given that the AER is responsible for investigating alleged Rule breaches, which could occur by AEMO or another market participant during a set of very unusual circumstances, and having the AER involved in the real time decision could cause the AER difficulties at a later time.

However to retain some certainty in the price formation process and to reduce risks to participants from subjective decisions we support the introduction of an objective test as outlined by the Rule proponent. As these events are expected to be rare we would expect the gaming risk to be low and not exceed the benefit from having a clear price formation process.

<u>Question 4</u>
What is the risk that Market Participants are able to exert influence over the imposition of an APP by way of their bidding behaviour?

Given that the occurrence of an APP is infrequent and often the result of a number of market events and that traders will be operating in a sphere of incomplete information the risk of exerting influence over the imposition of an APP is very low. Additionally the proposed Rule change does not significantly change the incentives to exert influence from the status quo, therefore it is not considered either a benefit or a cost in the assessment of the Rule change proposal.

<u>Question 5</u>
What would be the likely impact and materiality of costs, if any; resulting from an extension in the time AEMO takes to include compensation payable from an APP, MFP or MPC event in preliminary and final statements? What would be the likely impact and materiality of costs arising from rule changes in relation to the application and operation of APPs?

Due to the infrequent occurrence of the APP, MFP and MPC events the impact of the extension of time proposed by the Rule proponent is minimal. Providing the time extension supports the efficient operation of the market as noted in the Proponents Rule change proposal. As to the impact and materiality of costs resulting from the rule change the major cost would be any initial system changes required by AEMO and the ongoing maintenance of procedures and staff training required to support market events that will occur infrequently.

TRUenergy thanks AEMC for the opportunity to provide a submission in relation to the proposed Rule change. Please feel free to contact me on (03) 8628 1632 should you wish to further discuss this submission.

Yours Sincerely,

LStockman

Lana Stockman
Manager, Wholesale Regulation
TRUenergy