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Your ref:
Our Ref: 20120503 OUT AEMC SNSP Negative Bidding Submission

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Dear Elisabeth

Consultation Paper: National electricity Amendment (Negative offers from scheduled network service providers) Rule 2012

Basslink Pty Ltd (BPL) is the owner and operator of the Basslink HVDC Interconnector (Basslink). Basslink is the sole interconnection between the NEM regions of Tasmania and Victoria and it is presently the only Market Network Service Provider (MNSP) operating in the NEM. On 5 December 2011 two Victorian electricity generation companies proposed a rule to introduce a price floor of zero on network dispatch offers by Scheduled Network Service Providers (SNSPs). The proposed rule is intended to improve competition amongst generators, whose effective offers can be impacted by SNSP offers.

The proponents have expressed that the perceived issue is a generic problem specific to MSNPs in the NEM and have used Basslink and Hydro Tasmania as an 'example' to demonstrate details. Clearly as the only MNSP in the NEM it takes little extrapolation of concept to determine that this is not an argument based on generics but is in basis of perception of an agreement between the two parties named. Furthermore this idea is confirmed by the fact that the AEMC deems it relevant that specific mechanics of the Basslink Service Agreement (BSA) (a standalone agreement specific to the entities named) is described. If this truly was a generic issue as specific to MNSPs then this information would be irrelevant to the perceived problem described.

The AEMCs Consultation Paper on the National Electricity Amendment (Negative offers from scheduled network service providers) Rule 2012 set out a number of question that BPL will undertake to respond:

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Question 1 – To what extent are the market outcomes identified by the proponents incentivised by the current market structure?

1.1 *If Basslink was operated independently of Hydro Tasmania, would it have an incentive to offer negative prices (excluding technical reasons…)?*

MNSPs functionally derive income from the maximisation of interconnector flow and inter-regional spot price differences. It would be extremely naive to contend that any MNSP would concede a market disadvantage by providing a market offer to ensure that flows are minimised, simply put this means that no flow equals no revenue. BPL contends that this view of deriving income is not inconsistent with other scheduled participants in supporting asset financing arrangements.

1.2 *More generally, under what situations (excluding technical reasons) would and independently operated MNSP have an incentive to offer negative prices? Should the ability of such MNSPs to offer negative prices be view as anti-competitive or a legitimate business decision?*

As stated previously MNSPs like all scheduled participants are operating in the market with a view to maximise revenue, therefore the specific situations that are likely to incentivise any variation in capacity price band offer are those that are already pursued by every other scheduled participant for the particular region in question. An MNSP will strategically provide offers within the rules that will ensure dispatch especially at time of high regional arbitrage.

As for the question of negative bidding being an anti-competitive behaviour, in our opinion this is a rather bizarre inference as negative bidding is open to all other scheduled participants regardless of generation type. BPL would contend that a MSNP owner should be allowed to recover its substantial investments through mechanisms that are open to every other scheduled participant type. BPL puts it to the AEMC that to change the threshold for one scheduled participant type would be a discriminatory policy and would be divergent to the anti-discrimination fundamentals of the market design.

1.3 *If hydro Tasmania did not receive the revenue accruing across Basslink would it have an incentive to risk driving low spot prices in Tasmania?*

This is a question for Hydro Tasmania.

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Question 2 – Are there any technical reasons why BPL – or any other MNSP – should be able to offer negative prices?

***2.1** Should BPL continue to be able to offer negative prices so as to (1) reverse flows more quickly: and/or (2) reduce the instances and/or duration of counter price flows?*

It is a fact that HVDC interconnectors improve the system performance of interconnected AC systems; there are many example of this globally. Basslink has been designed and operates in such a way that it improves the system performance continually through frequency, voltage and reactive stability but also and importantly at times of high stress in the AC system. These stability functions are external to either the power or FCAS markets and do increase operational costs through increased harmonic filter switching as well as other long term electrical effects. The control system of Basslink is very high speed with control actions occurring every 55 microseconds; this means that Basslink adjusts its power flows over 100,000 times every 6 seconds retarding many potential frequency excursions.

The two issues are systematic of the weak Tasmanian system, as highlighted; Basslink provides system stability as a function of its fundamental design. To be clear this is not a payed service, the operational costs are born by the MNSP, cost recovery can only be achieved through market participation. These two issues distort the value of the MNSP revenue equation (flow **x** inter-regional price difference) being disincentives to the MNSP owner for investing in and providing a highly flexible and reliable system stability option. At present Basslink price band bidding is highly restricted through the two ministerial notices as discussed in section 2.2.2 of the consultation document.

***2.2** Is there a more efficient way to manage counter-price flows than through negative pricing?*

The issue here is not negative bidding, it is more fundamental. An MNSP, as discussed previously, would look to maximise the MNSP revenue equation. Would there be an expectation on other scheduled participants to improve the AC system performance without compensation while incurring negative revenue? BPL would suggest that the market could reasonably expect that participant to manage its offers to reduce this liability risk.

***2.3** Are there any other technical reasons why MNSPs should be able to offer negative prices?*

As previously highlighted, a policy that limits market participation based on participant type or technology is simply discriminatory; with respect to MNSPs they improve system quality, reliability and security of supply. They facilitate fuel, geographical and technological diversity with unmatched system response which contributes to the achievement of the National Electricity Objective (NEO), obviously reducing market participation or in other words network capability would contribute greatly to fortify a negative achievement with respect to the NEO.

The counter question also remains, Are there any other technical reasons why MNSPs should **NOT** be able to offer negative prices? BPL can see no argument as to why MNSPs are to be potentially unfairly discriminated. The -$1000 threshold applied to all scheduled participants irrespective of type, to assert, as the proponent does, that this mechanism is provided for the exclusive use of large thermal units based on periods of inefficient utilisation is plain misdirection. Currently hydro, thermal black coal, brown coal, combined cycle gas, aero gas, diesel, geothermal, biofuel, in fact any type of scheduled participant of this type can offer -$1000, however if this rule change were to occur, a single type of scheduled participant would not be able to offer negative prices simple because it technology is different?

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It is inarguable that each generation type is identical in its efficiency characteristics yet the negative threshold is the same, BPL do not believe that either the proponent or the AEMC is suggesting tailoring this negative value to a generators inefficiency characteristics. Yet the proponents would like the market to believe through this rule change proposal that MNSPs in general are creating such inefficiencies in the market that they must be forbidden the opportunities to create revenue that other scheduled participants are afforded, even though they improve physical electrical system performance. BPL would argue that this is in fact a market signal for innovation and investment in more modern technology that meets the markets needs.

Question 3 - Will the proposed solution resolve the identified problem?

3.1 *Will the impact of losses mean that Hydro Tasmania would still be able to be dispatched before the Latrobe Valley generators even where BPL offers must not be negative?*

This is a question for Hydro Tasmania.

Question 4 - Is the proposed rule change a material response to the proposed problem?

4.1 *How material is the identified problem?*

The rule change does not address the fundamental issue which is clearly between Hydro Tasmania and the proponents.

4.2 *Does the proposed solution represent a proportional response?*

The proposal represents a disproportional response that is aimed solely at the only MNSP in the market and one that that may have long lasting consequences for future interconnector investment and operation within the NEM. The problem is clearly an issue of perception with respect to the Hydro Tasmania/Basslink relationship by the proponent.

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Question 5 - What are the likely impacts on generators in the Latrobe Valley?

5.1 *Are generators in the Latrobe Valley likely to benefit from this proposed rule change, taking into account the impact of losses?*

This is a question for the generators in the Latrobe Valley.

5.2 *Are there any other benefits or costs that are likely to affect the Latrobe Valley generators that have not been identified?*

This is a question for the generators in the Latrobe Valley.

Question 6 - What are the likely impacts on generators in Tasmania?

6.1 *Is Hydro Tasmania likely to incur costs if this proposed rule change is implemented, taking into account the impact of losses? Are there any other costs or benefits that are likely to accrue to Hydro Tasmania that have not been identified?*

This is a question for Hydro Tasmania.

6.2 *On balance, what is the likely impact on AETV? Are there any other benefits or costs that are likely to affect AETV that have not been identified?*

This is a question for AETV.

Question 7 - What are the likely impacts on Victorian end-use consumers?

7.1 *Are end-use consumers in Victoria likely to benefit from this proposed rule change?*

BPL do not purport to be economists and will not comment.

7.2 *Are there any other benefits or costs that are likely to affect Victorian consumers that have not been identified?*

BPL do not purport to be economists and will not comment.

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Question 8 - What are the likely impacts on Tasmanian end-use consumers?

8.1 *Are end-use consumers in Tasmania likely to benefit or incur costs from this proposed rule change?*

BPL do not purport to be economists and will not comment.

8.2 *Are there any other benefits or costs that are likely to affect Tasmanian consumers that have not been identified?*

BPL do not purport to be economists and will not comment.

BPL thanks the AEMC for its consultative approach and respects that it presents the AEMC with an interesting policy challenge. BPL would like to reiterate that if this rule change were to succeed it would be a disproportionate and discriminatory response for a single issue supposed problem. We look forward to the AEMCs draft determination.

Yours sincerely

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