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Richard Owens  
Project Leader  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Mr Owens,

**REF: ERC0123 - Potential Generator Market Power in the NEM**

Barclays Capital (Barcap) appreciates the opportunity to comment on the Australian Energy Market Commission's (AEMC) consultation on the Rule change request from the Major Energy Users Inc. (MEU) relating to the potential exercise of market power by generators in the National Electricity Market (NEM).


We note the rule change request is to enhance generator competition outcomes during high demand periods in the NEM. Barcap, however, does not support the proposed changes to limit the ability of generators identified as having market power thereby capping price volatility. Barcap would like to provide the following comments relating to potential market impacts with respect to the proposed rule change:

- There are limited opportunities for generators to exercise market power (1-2% of the year) in the current state of the NEM. The balance is characterised by competitive outcomes regularly exhibited in generator bidding behaviour.
- Price signals for long-term investment in peaking capacity will be muted as it is inherently more risky for smaller/non-dominant generators to induce high prices. Wholesale prices on average will drop substantially.
- The reduction in electricity contract prices, particularly \$300/MWh strike caps, will delay sufficient investment in the NEM over the long term.
- The proposed changes will lead to sub-optimal investment decisions (too much baseload, not enough peaking capacity) and/or a reduction in demand side management activities.

- The proposed changes will result in a NEM-wide drop in asset values and earnings distress for some generators leading to energy security concerns without a market step change in bidding behaviour. It is uncertain whether contract prices under the current market dynamics are even sufficient to fully cover the LRMC of existing baseload generators.
- Reducing price volatility will lessen the market's reliance on electricity derivative products, particularly cap contracts, leading to a fall in liquidity. In its current state, the extent of market power being exercised depends on the amount of contracts entered into with the generators. A lack of contracting will exacerbate the issue in question.
- The example of AGL exercising considerable market power in SA over several summers was the result of inheriting a largely uncontracted generator due to a 'one-off' asset swap. The supply and demand dynamic in SA is also vastly different to the other larger NEM states.

If you have any questions or would like to discuss this submission further, please call me on (02) 9334 6132.

Yours sincerely,



Jamie Summons  
Director  
Barclays Capital