INFORMATION

Negative offers from Scheduled Network Service Providers

AEMC publishes final rule determination

The Australian Energy Market Commission has released its final rule determination on the Negative offers from Scheduled Network Service Providers (SNSPs) rule change request. The Commission has made a more preferable rule to set a lower limit for SNSP offers at the *market floor price*.

The rule change request

GDF Suez Australian Energy and AGL Loy Yang Marketing (Rule Proponents) are concerned that negative offers from SNSPs can cause some generators in the National Electricity Market (NEM) to have an effective offer that is below the *market floor price*, undercutting other generators.

The Rule Proponents are concerned that this leads to inefficient outcomes and proposed a rule that seeks to restrict SNSPs from making negative price offers.

Final rule determination

The Commission has made a more preferable rule that sets the *market floor price* as the lower limit for SNSP offers. This rule determination will not prevent Hydro Tasmania, together with a negative Basslink offer, from making effective offers below the *market floor price* into Victoria when constraints between the Latrobe Valley and the Victorian regional reference node bind. There has been one such instance of negative bidding by Basslink since 2010.

In making this final rule determination the Commission has considered the following:

- There is currently no lower price limit on SNSP offers in the National Electricity Rules (NER). The Commission considers that key market parameters, such as the price floor and price cap, should be contained in the rules and subject to the AEMC statutory rule change process. This provides certainty to market participants and promotes efficiency in decision making.
- Given the current role of SNSPs in the NEM, which is to actively trade and compete with generators and scheduled load, the existing *market floor price* definition in the NER should apply to SNSPs. This is consistent with the principle of competitive neutrality, whereby different technologies in the NEM are subject to the same market floor price and market price cap.

A combination of a number of factors, other than the ability of SNSPs to make negative offers, contribute to the issue raised by the Rule Proponents, including the Tasmanian electricity market structure, Hydro Tasmania's commercial agreement with Basslink, bidding behaviour during times of network constraint and the calculation of losses.

For this reason, the Commission does not consider that a blanket ban on negative offers from SNSPs to be a proportionate response. Nor is it appropriate that the AEMC use its rule making power to attempt to resolve issues that are the result of market structure and competition concerns outside of the NER.

To the extent there is the prospect of future investment in SNSPs, the Standing Council on Energy and Resources may wish to consider reviewing whether the current role of SNSPs in the NEM remains appropriate, given the efficiency concerns some stakeholders raised during this rule change process.

The Commission notes that if the future role of SNSPs in the NEM changes in response to a broader review, a different price cap and/or floor may need to be considered.

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