

Comments re Rule Change Directions Paper concerning Potential Generator Market Power in the NEM

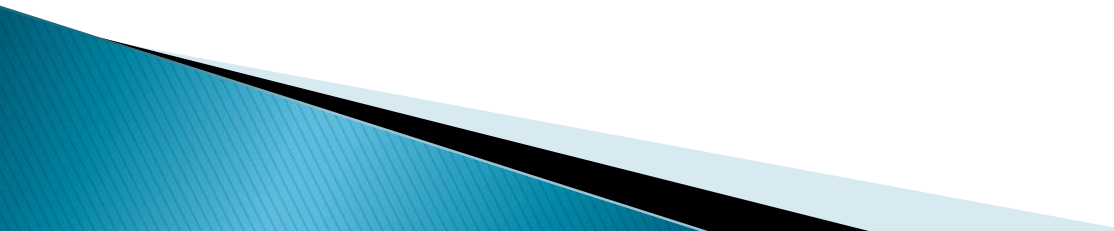
Mark Henley B Ec, JP

Representing Uniting Care Australia, network of over 400 agencies, well over 1000 site, response not so much as a major user, but from perspective of consumers, some of whom likely to receive services from Uniting Care

The National Electricity Objective

The National Electricity Objective, as stated in the National Electricity Law is:

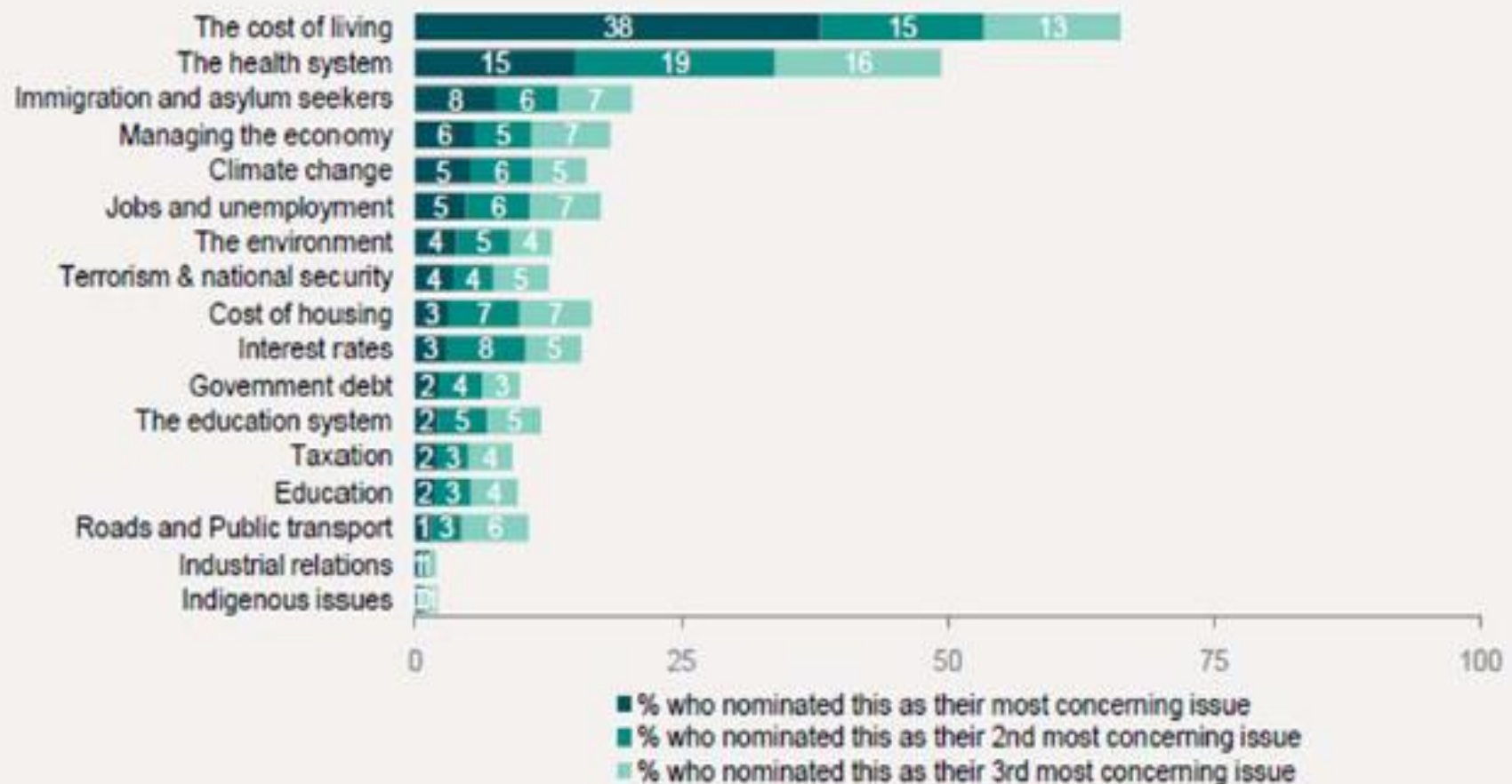
to promote efficient investment in, and efficient operation and use of, electricity services for the **long term interests of consumers** of electricity with respect to –

- ▶ price, quality, safety, reliability, and security of supply of electricity; and
 - ▶ the reliability, safety and security of the national electricity system.
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Cost of living is the primary concern for Australians



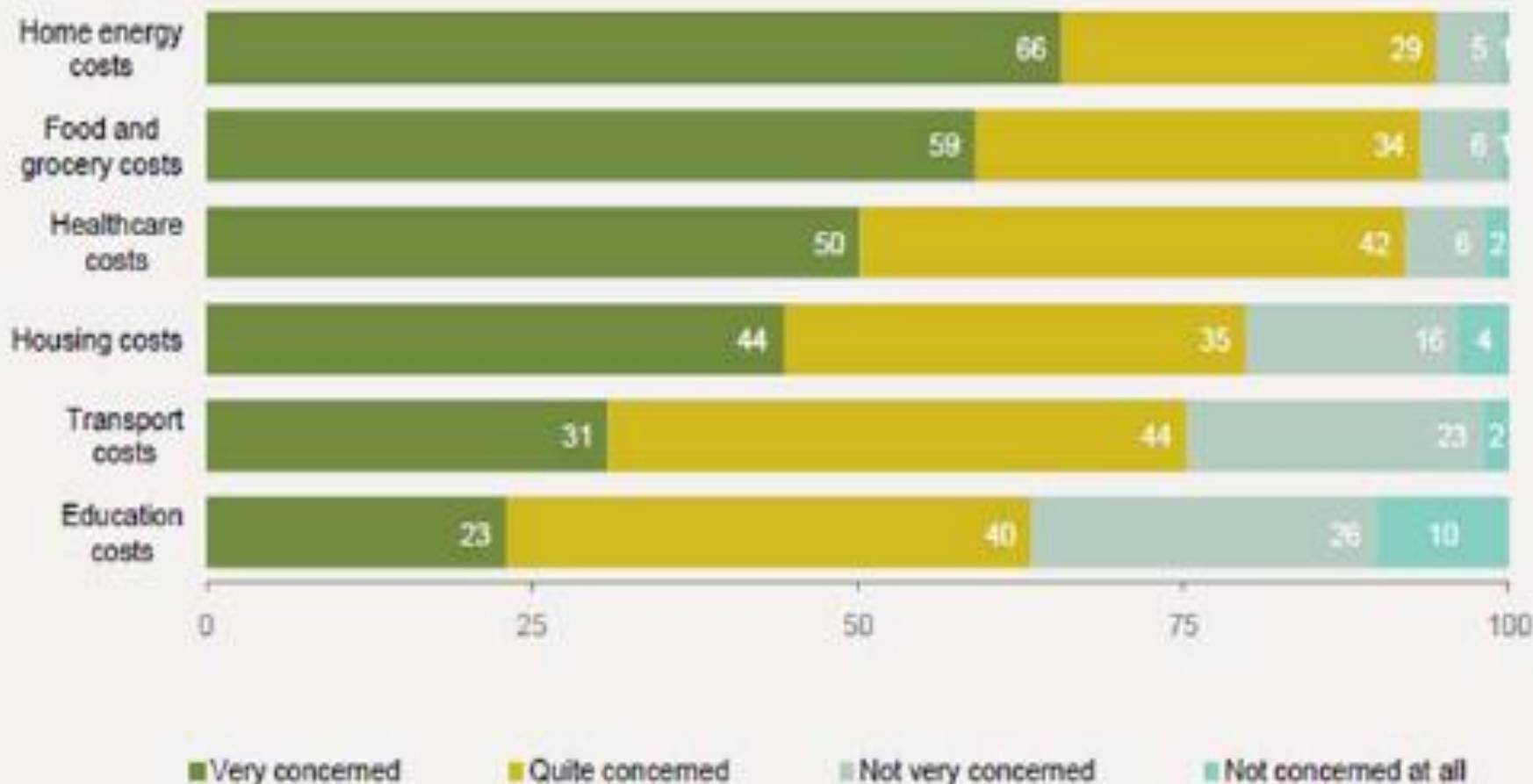
Clean Energy Council



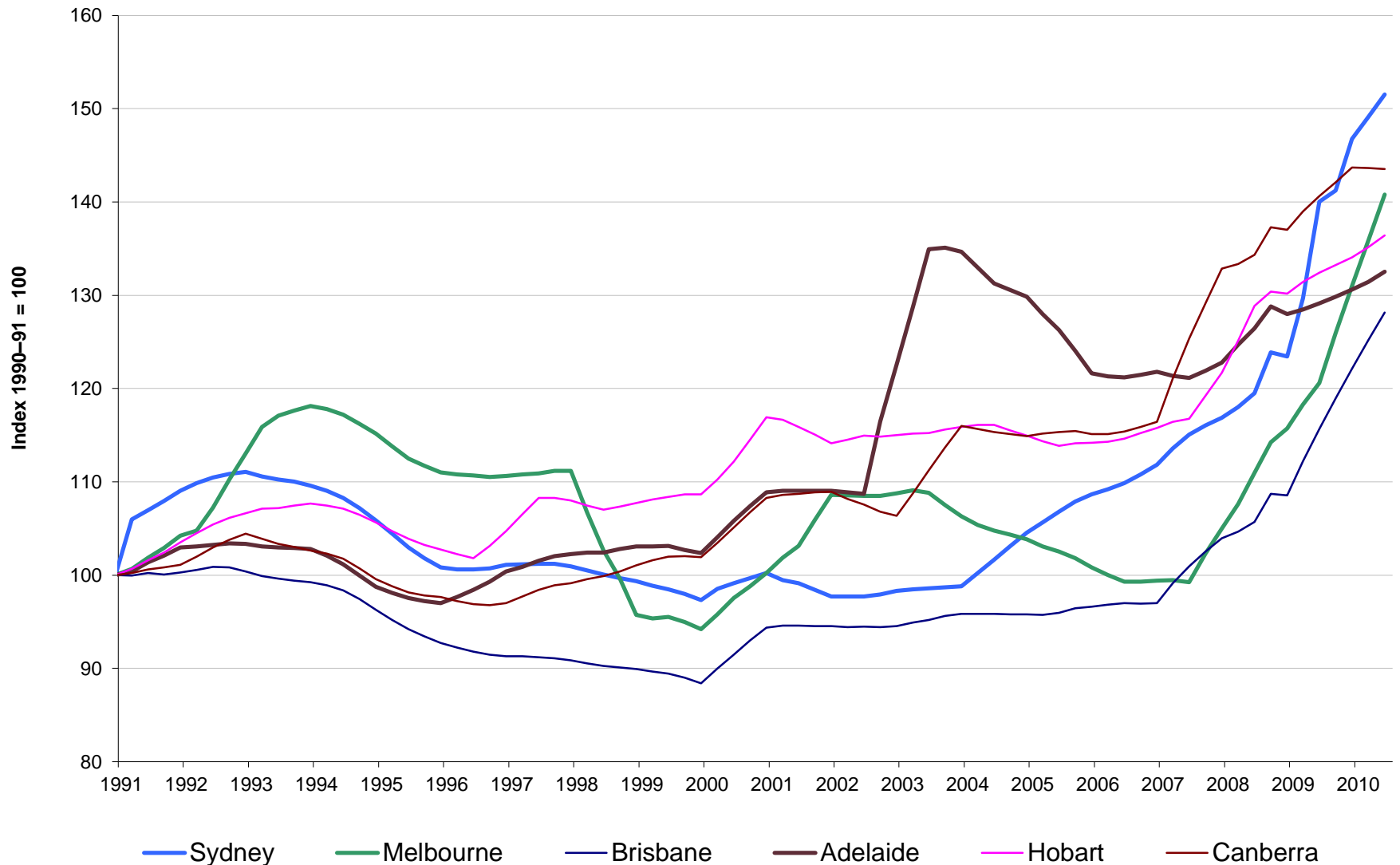
Two-thirds of Australians are “very concerned” about home energy costs



Clean Energy Council

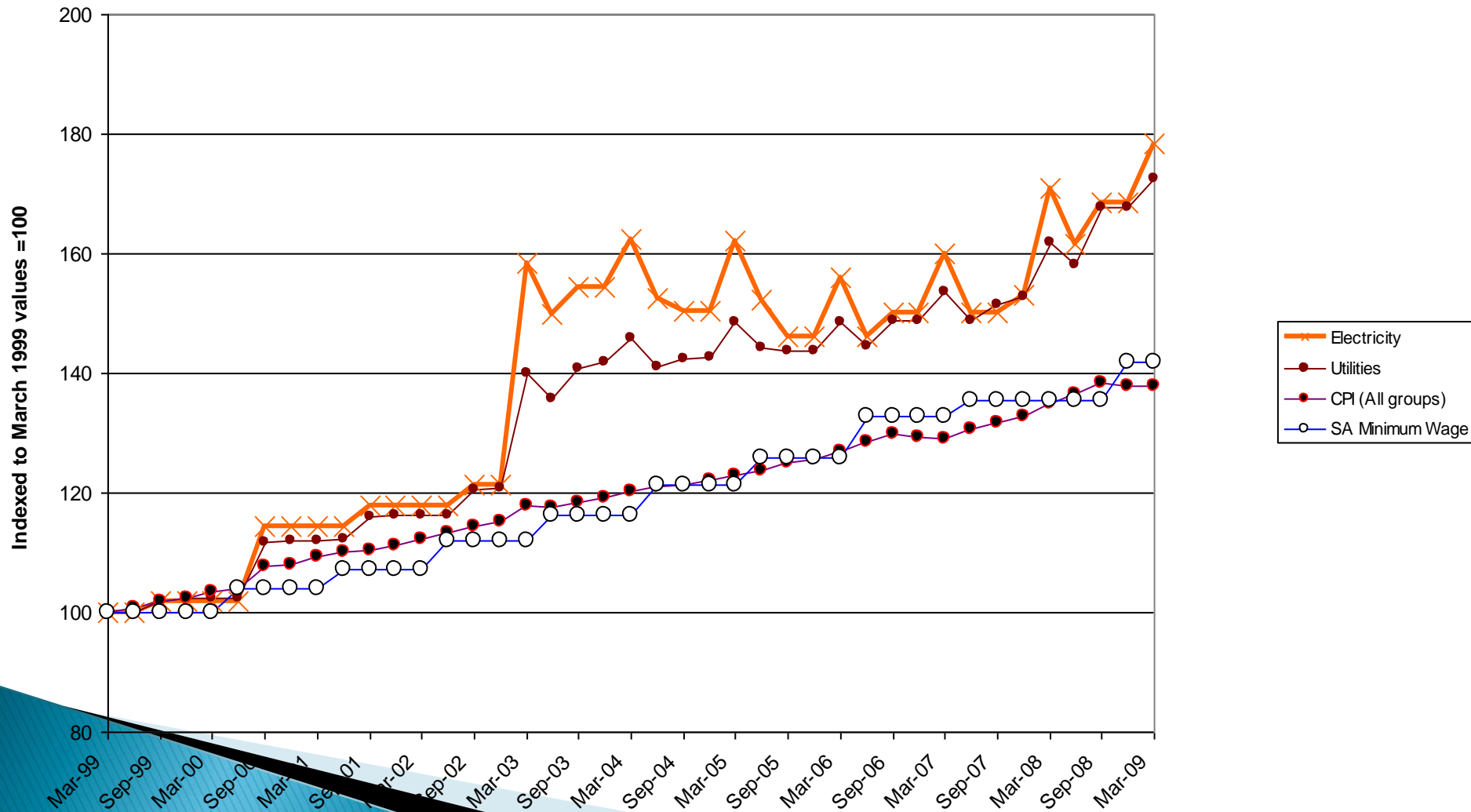


Retail Electricity Price Index, 1991–2010



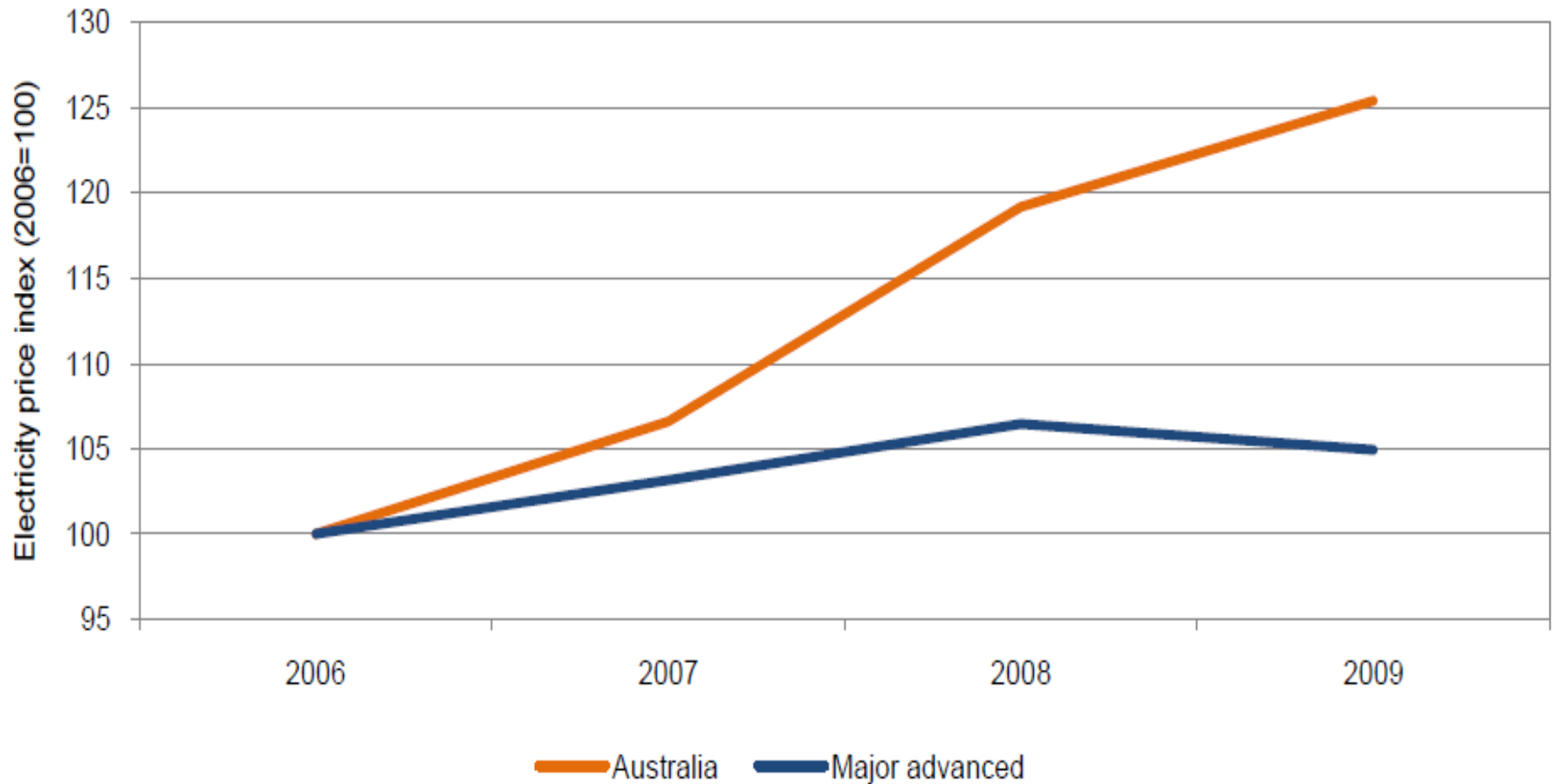
Electricity in CPI

CPI and Minium Wage SA



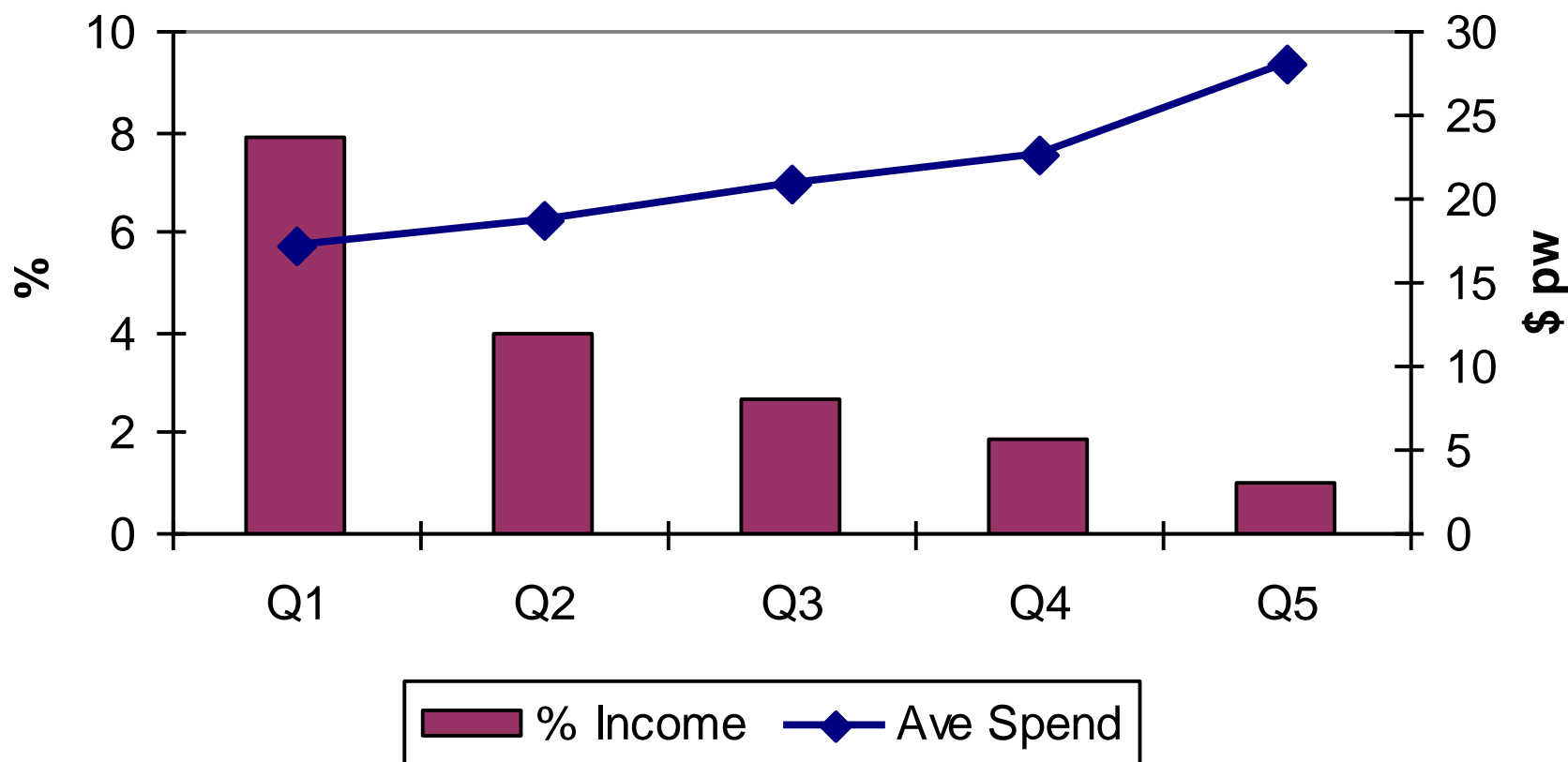
Electricity Prices Aust vs Others

Figure 1: Real electricity prices in Australia and the seven major advanced economies, 2006 to 2009, index in US dollars

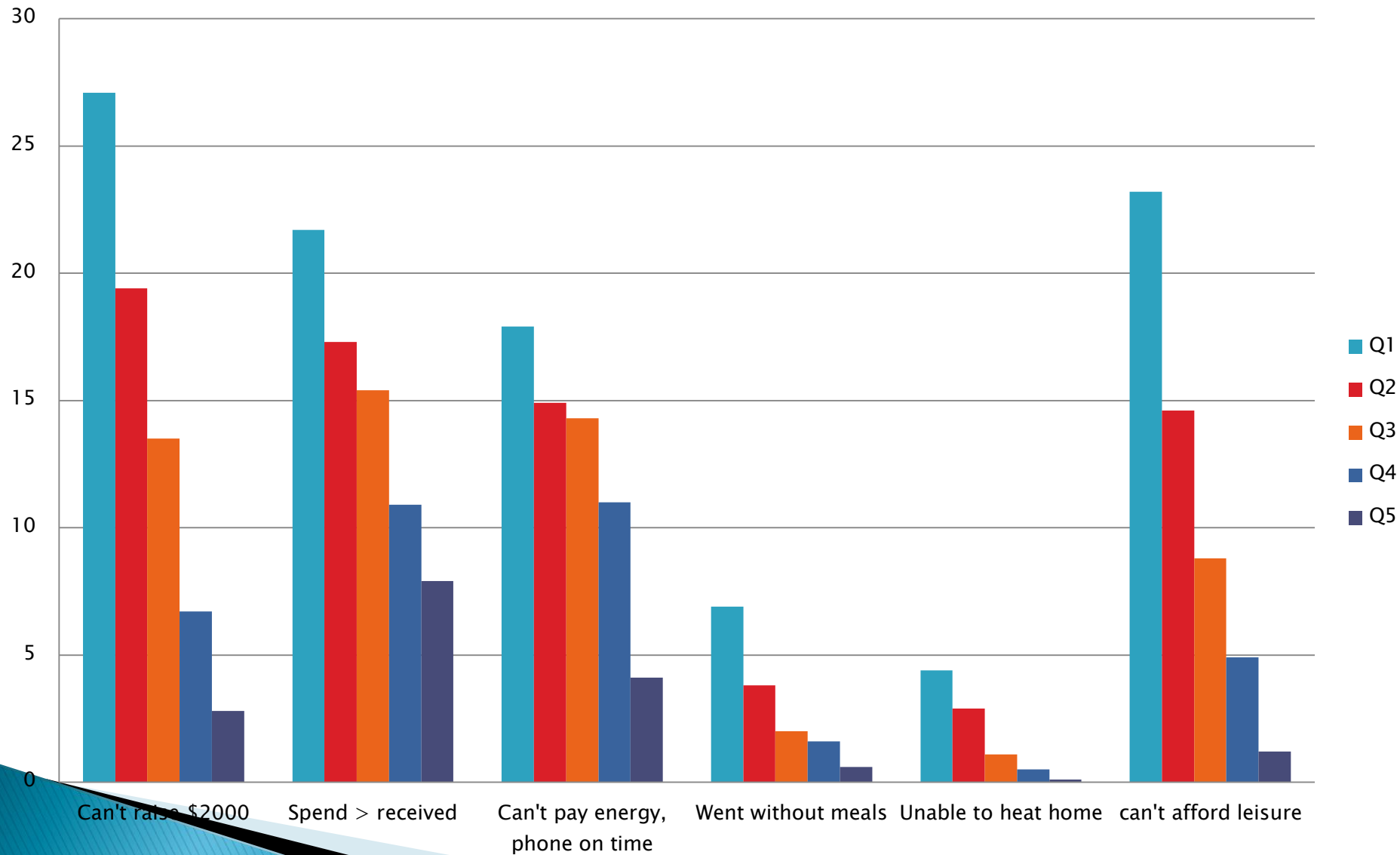


Electricity Spend and Use

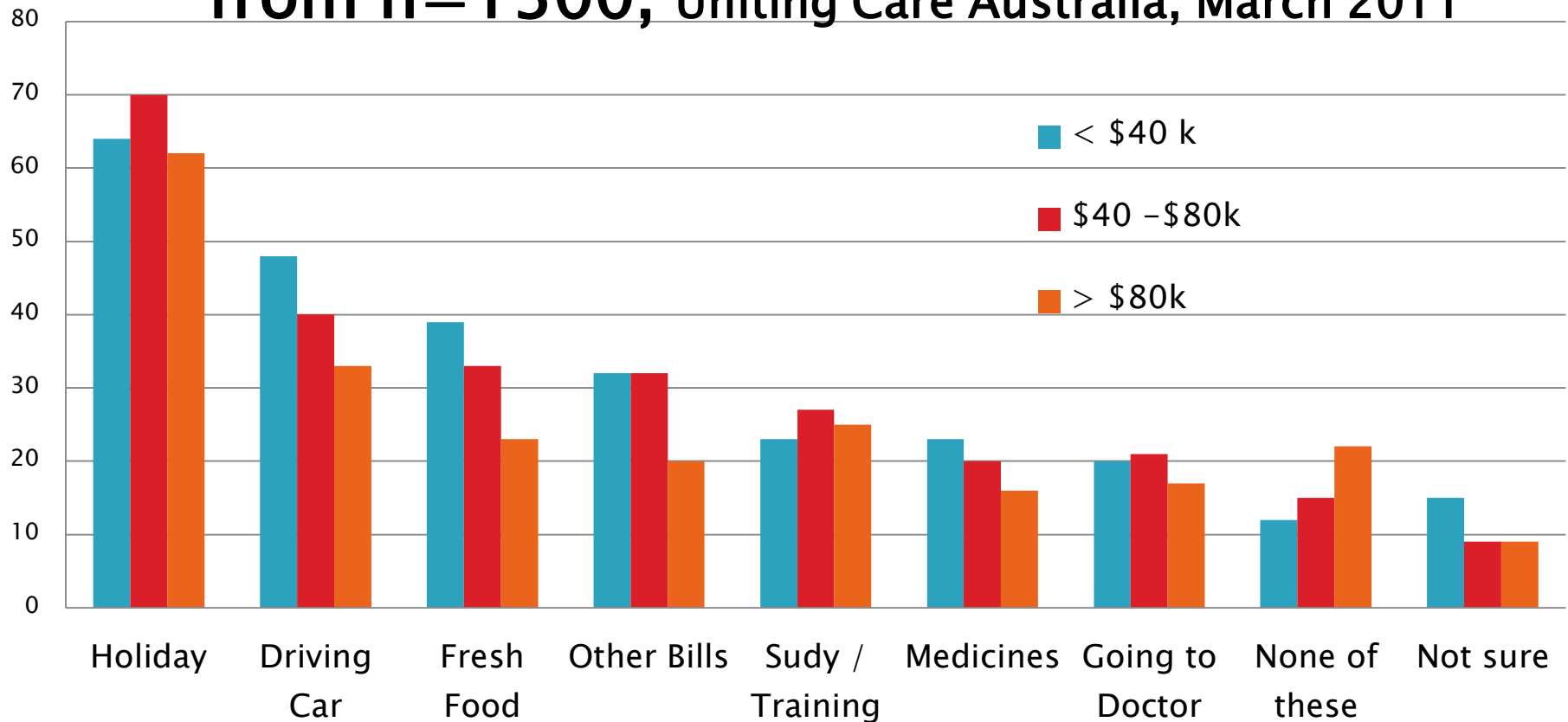
% Disposable income spent and average spend, electricity, Quintile, SA Housholds, 2003-04



Financial Stress

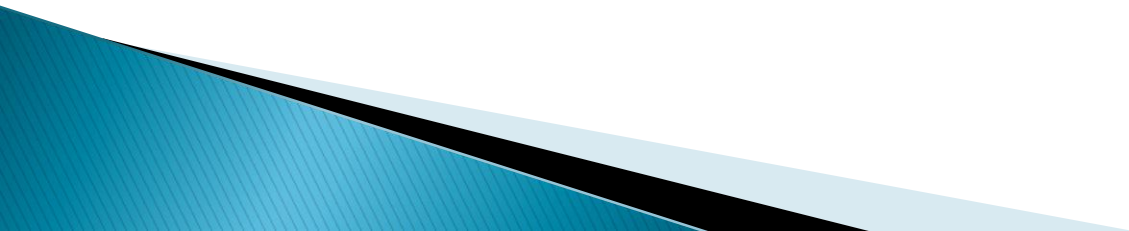


Surveyed Impacts on Households of Electricity Price Doubling over 5 years, % from n=1300, Uniting Care Australia, March 2011



Observation 1

Too many residential consumers are not coping with rising electricity costs. Privatisation / FRC has not delivered benefits to consumers in (at least) some energy markets.



Nature of Current Energy Markets

Retail concentration:

HHI (Herfindahl – Hirschman Index)

- ▶ Score < 1000 = market effectively competitive.
- ▶ Score $1000 - 1800$ = moderately concentrated
- ▶ Score > 1800 = highly concentrated market.
- ▶ Score 10000 = pure monopoly

HHI scores

- ▶ **Victoria, 2009/10 score = 1865**
- ▶ **SA, 2009/10, score = 3714**
- cf Banking score = 1448

Nature of Current Energy Markets

Retail = Highly Concentrated (Oligopoly)

Distribution = regulated Monopoly

(With rules for setting prices to be about to be reviewed)

Transmission = regulated Monopoly

Generation ? We suggest Oligopolistic

Also

Impact of Gentailers?

Observation 2

1. No element of Australian energy markets meets criteria for being effectively competitive.

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2. Market Information, including hedges, LRMC, etc is not available to consumers

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Consumer Risk



Definition of Market Power

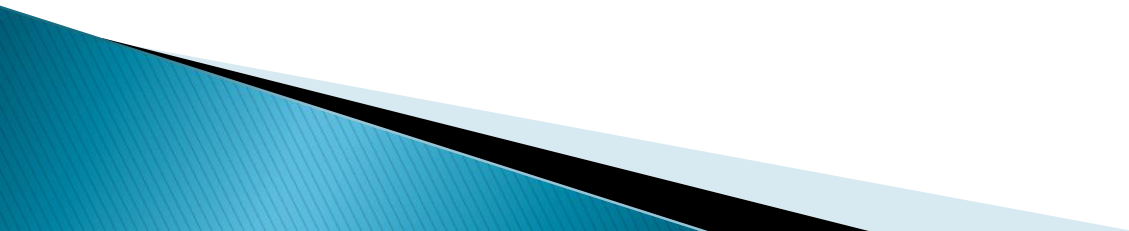
“The ability to profitably alter prices away from competitive levels” – Stoft 2002



Another View on Market Power?

Market Power

- ▶ The ability of any market entity to cause consumers to pay more than is reasonable



Market Power Issues

- ▶ Spike AND/ OR continued price $>$ LRMC?
- ▶ Any Price increase $>$ Competitive levels
- ▶ Bounds of Reasonableness? (OFGEM, UK)
 - 5% or more for a duration of more than 30 days in a one-year period;
 - 15% over ten days in a one-year period, or
 - 45% over 160 half-hours
 - (approximately 1% of the year) in a one year period.
- ▶ Is “Substantialness” necessary?

Observation 3

- ▶ There are sound theoretical reasons (and supporting evidence) for suspecting that electricity markets may be unusually susceptible at times to the exercise of market power, compared to other markets.

A Review of the Monitoring of Market Power:

The Possible Roles of TSOs in Monitoring for Market Power Issues in Congested Transmission Systems

By Paul Twomey, Richard Green, Karsten Neuhoff, and David Newbery

Observation 4

- ▶ Uniting Care is not drawn to the AEMC proposal to define Market Power in terms of Substantial Market Power (SMP). Note: EU defines SMP as equivalent to the concept of dominance. This is not in the best interest of consumers.
- ▶ Market Power is like pregnancy and death!
It is or it isn't!

Gentailers

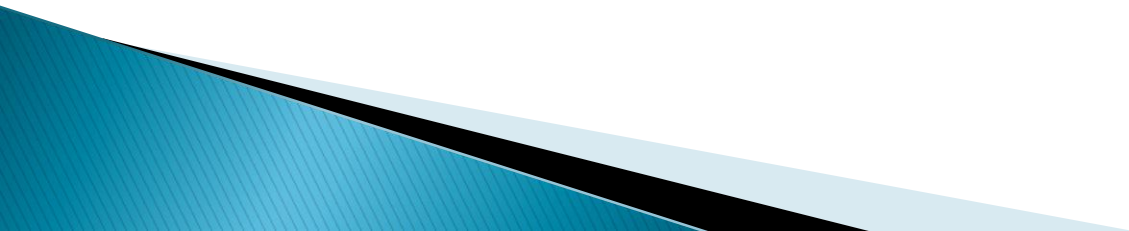
- ▶ What Thomas is effectively stating is that a theoretically competitive retail market cannot provide security for consumers, as retail without generation is extremely risky and can leave both consumers and generators financially exposed. Equally retail with generation reduces competition by bypassing the wholesale market.
- ▶ *Prof Stephen Thomas Professor of Energy Studies of Greenwich University, quoted in UCW Adelaide submission to AEMC re Retail Competition in SA*

Gentailers

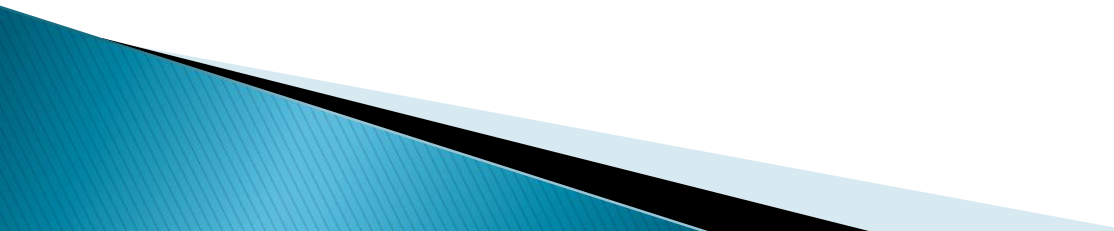
- ▶ in SA ...as it is clear that this combination (of dominant retailer with dominant generator) has the ability to change the dynamics of retail competition in SA from the situation that historically applied.
- ▶ *From UCW Adelaide submission to AEMC re effectiveness of retail competition in SA*

Observation 5

In considering generator market power, specific attention needs to be given to the role of “Gentailers”



The Rule Change

- ▶ The dominant generator(s) in each National Electricity Market (NEM) region is declared as a dominant generator(s).
 - ▶ Regional demand reaches or exceeds the value set by the AER re dominant generator(s), AEMO shall “call” on the dominant generator to dispatch all of its available capacity at the maximum price set for a dominant generator(s).
 - ▶ the dominant generator(s) is constrained to bid up to a maximum price, the Administered Price Cap, currently \$300/MWh
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Small Consumer Response

- ▶ Thrust of Rule Change supported, particularly identification of dominant generator(s) / gentailer(s), setting bounds on price and dispatch requirements
- ▶ Notion of “Substantial Market Power” not particularly helpful for small consumers
- ▶ Exercise of (substantial) Market Power should be about BOTH ‘spikes’ (beyond reasonably adjustment) AND sustained prices $>$ LRMC
- ▶ focus of the rules needs to be ‘ex ante’ and deal with potential for GMP as well as actual GMP
- ▶ Information asymmetry continues to be a problem

Thankyou for Opportunity to
present