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Energy regulator bans false bidding

Massive spikes in wholesale electricity prices caused by the bidding tactics of two Queensland government-owned power generators has forced the national energy regulator to ban false or misleading offers in the national electricity market.

The Australian Energy Market Commission is concerned that deliberate "late rebidding" by Queensland generators, Stanwell Energy and CS Energy, have caused distortions in the market and may be contributing to higher prices for retail users.

The AEMC's damning assessment of the bidding tactics adopted by the two Queensland government generators highlights the dangers from having a concentrated market.

The obvious question to ask is this: Are the pressures imposed by the government on these two generators to increase dividend payments driving them to act in a manner that is harming the Queensland economy and its consumers?

Stanwell and CS have claimed they have done nothing wrong.

That has led to industry sources to claim the AEMC new rule prohibiting false and misleading offers in the electricity market will do nothing to stop a repeat of behaviour seen during the summer of 2014-15.

Over that four-month period electricity prices in Queensland sometimes spiked as high as \$13,500 per megawatt hour for brief periods.

The volatility in the market caused by "late rebidding" has an impact on electricity prices for business and retail

customers because the higher volatility in prices feeds into futures markets contracts.

The AEMC said in a draft ruling published in September that the widespread occurrence of deliberate late rebidding has result in economic harm.

"The practice of systematic, deliberate late rebidding has the potential to decrease confidence in the forward information on which expectations are based, including the Australian Energy Market Operator's (AEMO) pre-dispatch forecast," the AEMC draft ruling says.

"A loss of confidence in the reliability of information can have significant consequences over time, limiting participation in the market. It may discourage industry from producing or even locating in regions that are subject to the behaviour.

"Price volatility caused by deliberate late rebidding has inflated the value of financial hedge contracts. Market participants must always balance their exposure to the spot market against the amount of hedge contract cover they procure.

"Deliberate late rebidding linked to price volatility can alter this balance. In effect, some participants are paying a premium on contract market products in order to manage the price volatility that arises from this type of late rebidding.

"They are paying more either way – through spot prices or contracts. This may result in higher costs being passed through to consumers – both households and industry. Non-competitively priced hedge contracts also have the potential to affect retail competition and investments in other sectors of the economy."

Analysis by EY found that late rebidding has had a material impact on contract markets.

It estimated that late rebidding in Queensland in the three months to

December 2014 added a premium of \$8 per megawatt hour to the price caps in the state and \$7 per megawatt hour to price caps in the first quarter of 2015.

EY found that the additional expenditure on ASX traded caps and base futures caused by late rebidding was \$103.8 million. After including impacts in the over-the-counter derivatives market the total cost was \$170 million.

An industry source described the late rebidding strategy to Chanticleer in the following way. It revolves around targeting high pool prices in the final five minutes of a half-hourly settlement period.

In November 2014 late rebidding achieved a five minutes price of \$13,500/MWh which then guarantees a half-hourly settlement price of at least \$2,200/MWh.

High prices are achieved by causing the Queensland-New South Wales Interconnector (QNI) to bind on the northern limit. The bidding behaviour simulates an over-constraint of QNI, forcing AEMO to find out of merit order bid prices to satisfy localised energy requirements, allowing the Queensland generators to set the five minute pool price at inflated levels.

To cause QNI to bind, the generators first bid their fast ramping generation (such as hydro and gas units) into lower price bands, therefore increasing their dispatch level and displacing competing Queensland generators and/or reducing the inflow of energy from NSW in the front end of the 30-minute trading interval.

Then, for the final five-minute dispatch interval, they re-bid their fast ramping units into high price bands, thus reducing their own energy dispatch levels.

As their dispatched energy drops so rapidly, other generators (such as coal-



fired units) are unable to respond quickly enough. This ramp-rate constraint forces AEMO to dispatch out of merit order bid prices, therefore causing prices to spike.

By targeting the final five minutes of a half-hour period, idle generators that have fast ramp capability, such as gas peaking plant, are unable to respond economically, as they would only receive payment for the amount of MWs they are able to dispatch in the five minute period.

For example a unit that could achieve a 60MW dispatch level in five minutes, would only receive payment for 10MW for the half-hour, which is one sixth of the 60MW settlement period.

Equally, demand-side response also becomes less effective. For this same reason, this strategy does not force Stanwell or CS Energy to contract lightly because they will receive the half-hourly pool price for the average generation profile over the full 30 minutes.

CS Energy and Stanwell, said in submissions to the AEMC that "there is no evidence 'misleading' late rebidding has taken place". Stanwell stated that wholesale prices are correlated with demand, indicating that they are broadly efficient and rational.⁵⁴ CS Energy stated that the average delay between a change in circumstances and a rebid is small, and there is no correlation between the length of delay and an increase in price.

Stanwell told Chanticleer that it bids into the wholesale electricity market "in accordance with the rules set by the AEMC and enforced by the Australian Energy Regulator.

"The bidding process is transparent and wholesale electricity prices are determined by supply and demand," the company said.

"The most recent AEMC review into the National Electricity Market (NEM) in 2013 confirmed that market power is not an issue in Queensland.

"Reviews into market operation are conducted on an ongoing basis and have reinforced that the current market design is appropriate, fair and functional."

Stanwell said it had supported in principle the AEMC review of trading rules but it had "specific concerns regarding implementation as indicated in earlier submissions".

A leading law firm in Queensland has provided advice to energy market participants that the late rebidding strategy used by Stanwell and CS Energy will likely continue after trading rules are changed.

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