

Please note: This is a draft of the AER's proposed response to Minister Frydenberg and this version of the letter was not sent to Minister Frydenberg.



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Hon Josh Frydenberg MP
Minister for the Environment and Energy
Parliament House
CANBERRA ACT 2600

Dear Minister

Thank you for your recent letter where you expressed concern about the bidding behaviour of Queensland generators and asked whether the AER requires additional powers to respond to these bidding practices.

As you are aware, the National Electricity Market wholesale market design relies on competition between generators to deliver efficient market outcomes for consumers. However, if appropriate structural arrangements are not in place and there is not this competitive tension between generators, there is a stronger ability for generators to exercise market power and drive up the prices that consumers pay for electricity.

Queensland has a more concentrated generation sector than any other NEM region, with the exception of Tasmania. In Queensland, state owned corporations Stanwell and CS Energy control 65 percent of generation capacity. This concentrated market structure is key driver of the market outcomes we are seeing in Queensland at present. It means that Stanwell and /or CS Energy must be dispatched at almost any level of demand.

This concentrated market structure also exacerbates the impacts of recent market conditions we have seen in Queensland, such as periods of record demand and network limitations between Queensland and New South Wales. Without competitive tension in the region, these generators have the ability, through their bidding and rebidding strategies, to take advantage of these conditions and increase prices should they wish to do so.

As highlighted in your letter, the recent 'Bidding in Good Faith' Rule change explicitly prohibits false or misleading bids. We will actively pursue circumstances where we consider that the information provided to the market by generators is false or misleading.

However, the issue we see in Queensland is primarily a structural one. The ability of generators in Queensland to influence prices by offering capacity at high prices and by economic withholding results from the prevailing concentrated market structure.

Released under FOI

Minor changes to bidding and rebidding rules are unlikely to prevent generators with market power from pushing up wholesale prices.

Nonetheless, a number of enhancements to the AER's existing 'enforcement toolkit' could give us a greater capacity to understand drivers of generator behaviour and respond to issues we see in the market. In particular, a power for the AER to gather oral evidence (equivalent to the ACCC's section 155 power) would significantly enhance our capacity to conduct investigations into potential breaches of the Electricity Rules. This was recommended in the COAG Energy Council's Enforcement Review but not acted upon.

Similarly, clarity around our ability to obtain data – including contract market data – would support the AER's ability to undertake a range of market monitoring and reporting functions, such as our role reporting into the effectiveness of wholesale market competition.

While these initiatives would not provide a 'magic bullet' to the structural issues we are observing in the market, they would support a better understanding of market behaviour and provide the AER with an enhanced ability to respond to issues we see in the market. We consider that this could play an important role in providing on-going business and consumer confidence in the operation of our markets.

Should you or your staff require any further information in regards to matters raised in this letter, please do not hesitate to contact me on (03) 9290 1419 or Michelle Groves, the AER CEO on (03) 9290 1423.

Yours sincerely,

Paula W. Conboy
Chair