

Monday, 6th September 1999

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Delivered by email to acruickshank@neca.com.au and via surface mail

RE: Loy Yang Powers Response to the Removal of the Zero Price Floor

Dear Alex,

Loy Yang Power is pleased to comment on the proposed removal of the zero price floor. We agree with the general idea of the code change, but wish to highlight a number of issues.

- Logically we do not see that mirroring of Voll and the excess generation payment makes any real sense. Voll is meant to reflect the lost value to the customer of not being supplied when he expected to. Whereas the excess generation payment is meant to encourage generators to offload when demand is low, and thus make it easier for the System operator to manage and balance the physical system.

A generator will be incentivised to offload well before a negative Voll Price. What is needed is a negative price that is realistic and commercially sustainable. That is, a price which is not so high as to run the risk of severe financial damage to a participant.

Suggesting that we need a large negative price is really admitting that the market model is not working, as if it were, all generators would offload to minimums as soon as the pool price went below their marginal costs. Even for players with take or pay contracts, this offloading point should be well before a negative price.

- Secondly, history would show that there is often nothing a generator can do about the negative prices. The significant negative prices we have had to date have been caused by overconstrained dispatch and ramp rate constraints, not the unwillingness of a generator to offload. It therefore seems ludicrous to potentially impose such a high level of penalty on participants because of 'the economically pure' logic of a set of algorithms. With the exposing of customers to this price, they will also be disadvantaged as they will not be able to put load to the system quickly and may end up paying out large sums on hedging contracts because of the negative RRP.



Some general comments on the drafting:

As the code change is talking negative prices, I believe that the wording of the clause in 3.14.2(e1)(3) needs to be turned around as it would be Generators paying NEMMCO and NEMMCO paying Customers. I suggest the following :-

Under 3.14.2 (e1)(3), following (ii), the code should read,
“... payable by NEMMCO to Market Customers is not less than the sum of the amounts payable to NEMMCO by Market Generators and Market Network Service Providers ...”

In clause 3.14.5(h) there needs to be a 'or' after administered price cap and before the insertion of administered price floor.

Should you have any queries regarding these comments, please do not hesitate to contact me.

Yours faithfully,

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