

Our Ref: 64584
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John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Submitted online via www.aemc.gov.au

Dear Mr Pierce

**Submission to Monitoring and reporting on frequency control framework –
Consultation paper (Ref: ERC0273)**

The AER welcomes the opportunity to respond to the AEMC's consultation paper on Monitoring and reporting on frequency control framework. In particular, we would like to respond to Question 3 of the paper which addresses the AER's quarterly reports on FCAS markets outcomes.

3.1 Timing of reporting

Do stakeholders agree with the AER proposal to publish quarterly reports as soon as practicable after the end of the relevant quarter, rather than imposing a time limit?

Our preference is not to have a time limit. However, if stakeholders do not agree with our proposal to publish quarterly reports as soon as practicable after the end of the quarter, we propose a deadline of 30 business days. This would allow us to align our FCAS quarterly reporting with our wholesale market quarterly report, which we plan to publish within 30 business days after the end of the quarter. These markets are interrelated so coordinating our reports would benefit market participants and policy makers.

3.2 Assessment of effectiveness of competition

Do stakeholders prefer the AER to assess the effectiveness of competition in FCAS markets as part of wholesale electricity market performance reports required under the NEL (at least every two years), or as part of quarterly reports on the performance of FCAS markets?

We agree with the AEMC that we should report on these factors more often than every two years and we will comment on any changes that might impact competition and efficiency of FCAS markets in our quarterly FCAS report. For example, we envisage our quarterly FCAS report will include an assessment of any significant changes in the number of participants, barriers to entry, participants' offers and underlying costs, and the likely impact of these changes on competition and efficiency of FCAS markets. Our quarterly FCAS report will also include other factors and metrics developed as part of our effective competition framework.

Our concern is that the obligation as suggested in question 3.2 of the consultation paper, may be interpreted as requiring the AER to undertake a full assessment every quarter of whether there is "effective competition" in each of the eight FCAS markets, as defined in section 18B of the National Electricity Law (NEL).

The AER's assessment of effective competition as set out in the NEL is described as a long term assessment, having regard to:

- whether competitors hold a reasonable *sustainable* position in the market
- whether prices are determined on a *long term* basis by underlying costs rather than the existence of market power, even though a competitor may hold a substantial degree of market power from time to time
- whether barriers to entry into the market are sufficiently low so that a substantial degree of market power may only be held by a competitor on a *temporary* basis
- whether there is independent rivalry in *all* dimensions of the price, product or service offered in the market.

It appears such an interpretation to do this type of assessment of eight ancillary markets on a quarterly basis may be at odds with the requirement set out in the law. Clarification around that language in this context would be helpful.

Please contact Joanne Ingham on (02) 6243 4975 if you would like to discuss any aspect of this submission.

Yours sincerely



Peter Adams
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Australian Energy Regulator