

AER REPORTS ON AGL REBIDDING BEHAVIOUR IN SA

The Australian Energy Regulator today published the results of a comprehensive investigation into the rebidding behaviour of AGL Energy Limited (AGL) during February 2008. The investigation has now been closed and no further action will be taken.

The investigation focused on AGL's rebidding of its Torrens Island Power Station (TIPS) for the trading day of 19 February 2008. TIPS is a 1280 MW gas-fired power station, the largest in the South Australia region of the National Electricity Market (NEM), located 15 kilometres north-west of Adelaide.

On two occasions on 19 February 2008, AGL rebid up to 75 per cent of capacity at TIPS from low prices to high prices immediately prior to dispatch causing high spot prices.

Bidding capacity at high prices is not a breach of the National Electricity Rules but generators are required to offer and rebid in "good faith".

AER Chairman, Mr Steve Edwell, said: "The 'Good Faith' provisions of the National Electricity Rules were introduced to address concerns about the ability of generators to affect spot prices and limit opportunities for market participants to respond to high-prices."

Rebidding immediately prior to dispatch can lead to significant inaccuracies in market forecasting information. Accurate forecasts are crucial for fast-start generator and demand-side responses, and ultimately, efficient market outcomes.

The detailed investigation, however, did not produce sufficient evidence to support a breach of the Rules.

"It is clear that the actions of AGL caused periods of high prices in SA. When demand in South Australia is above 2500MW AGL is able to set the price," Mr Edwell said.

A copy of the full investigation report will be available at www.aer.gov.au.

Media inquiries: Ms Lin Enright (02) 6243 1108 or 0414 613 520

General inquiries: Infocentre: 1300 302 502

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BACKGROUND

During the first quarter of 2008, the electricity spot price in South Australia exceeded \$5000/MWh on 51 occasions. An initial AER report into the events of January and February 2008 found that the high prices were caused by a combination of high demand, generator bidding and transmission constraints.

AGL contributed to these high prices by offering between 75 per cent and 86 per cent of its Torrens Island capacity at or close to the price cap of \$10,000/MWh during the high price events. This represents around one third of South Australia's demand at peak times.

In particular, on 19 February 2008, AGL rebid up to 75 per cent of its capacity at TIPS from prices below \$150/MWh to \$9000/MWh immediately prior to dispatch. These rebids caused the spot price of electricity in SA to spike to \$1573/MWh at 2 pm and \$6087/MWh at 6 pm.