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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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Submission by email at: aemc.gov.au

Rule Change Proposal - Five Minute Settlement, Directions Paper - Second Supplementary Submission

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts.

Snowy Hydro Limited appreciates the opportunity to provide a second supplementary submission to the five minute settlement directions paper. The aim of this submission to highlight two (2) issues. The first issue is the lack of integration in the assessment of the non-schedule load and generation rule change with the five minute rule change. The second issue is the imperative to have a proper full cost/benefit analysis performed before the AEMC's Draft Determination on 5 minute settlement.

No Integration In Assessment Across Different Rule Changes

Support for the five minute rule change is basically premised on providing pricing signals that would stimulate efficient levels of flexible generation and supply response. The AEMC acknowledges that the Rule change if implemented would have significant risks and costs especially with respect to the reduction in Service Providers selling risk management products such as Caps. Hence the need for an appropriate transition period. The debate around the tenure of the transition period varies from 3, 5, 7 years and a chorus of Market Participants calling for a monitoring regime to assess on a periodic basis whether the market conditions are right to implement five minute settlement.

The Snowy/Engie rule changes required non-schedule load and generation to bid into central dispatch was premised on improving the price discovery process for all classes of Participants. Without an efficient price discovery process there would be market and operational inefficiencies, from reduced confidence in pre-dispatch prices, inaccurate reserve forecasting and procurement by AEMO, reduced ability for AEMO to manage the

central dispatch process and inefficiencies in pricing of financial contracts.

In the transition period there will be significant increases in Spot market volatility from the inability of conventional peaking generators to sell Cap contracts and the likely bidding behaviour of non-scheduled generators and loads. A number of illustrative examples highlighting these risks were shown in Snowy Hydro's five minute settlement directions paper submission. These examples utilise actual historical central dispatch data and utilise the same dispatch algorithm used by AEMO. The output results of much higher Spot price and volatility should be a clear warning signal to reject the five minute settlement rule change.

If the five minute settlement rule is to be made, the uptake of non-schedule generation and load is likely to significantly increase. Therefore the problems associated with the impact on non-schedule response is likely to increase as there would be further erosion in the efficient price discovery process.

Full Cost/Benefit Analysis Is Required

The benefits espoused by supporters of the five minute settlement rule change has been predominantly premised on theoretical benefits from an alignment of dispatch and settlement periods.

In comparison the costs associated with five minute settlement are both significant and tangible. The costs are both one off implementation costs and on-going costs from a change in market structure. Estimates of these costs exceed \$500 million and have been provided in Snowy Hydro's submissions to the Directions Paper.

Many submissions published on the AEMC website across all categories of Market Participants, Industry Associations, and Consumer User Groups have clearly highlighted the need for a full cost/benefit assessment of five minute settlement.

Snowy Hydro believes the AEMC's draft decision to not ratify the non-schedule load and generation rule change means the hurdle rate for ratification of the five minute settlement rule change must be lifted to compensate for the increased risks and costs from the likely increased impact of non-schedule responses in the National Electricity Market.

If the five minute settlement rule change is to be made, Snowy Hydro strongly encourages the AEMC to demonstrate in unambiguous terms that there is likely to be net benefits under five minute settlement.

A proper cost-benefit analysis would assess several alternative approaches to the five minute settlement. The comprehensive nature of such an assessment would identify the preferred option which achieves the objectives of the proposed rule change and generates the highest benefit net benefit to society. It is not sufficient for the Commission to say that the

“outcome of the Snowy/ENGIE rule change request, although related is not tied to the outcome of the five minute settlement¹” without a proper cost benefit analysis. We know that the rule change will impose significant economic burden on generators, retailers and their customers, accordingly this quantitative assessment is critical.

Snowy Hydro appreciates the opportunity to make this second supplementary submission. For further clarification on our submission, contact Panos Priftakis, Regulation Manager on panos.priftakis@snowyhydro.com.au

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Ly', with a stylized flourish at the end.

Kevin Ly
Head of Wholesale Regulation

¹ AEMC, 2017, “Draft Rule Determination National Electricity Rule 2017”, page 9