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Australian Energy Market Commission
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Submitted by email to aemc@aemc.gov.au

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Clarifying mandatory PFR obligations for bidirectional plant Consultation paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation Paper from the Australian Energy Market Commission (the Commission) on Clarifying mandatory PFR obligations for bidirectional plant.

Regulatory reforms that support the development to deliver essential system services through appropriate incentives in order to prepare the NEM for the future operating conditions are critical. Instead the market has unfortunately been met with heavy-handed mandatory primary frequency control rules which have been imposed on market participants in order to obtain an outcome that could have improved through an enhanced market. In the long term this will only lead to much higher costs on market participants.

AEMO's rule change objective is to clarify obligations on batteries to ensure that the future provision of PFR is not only sufficient in volume but also provided in a predictable and consistent way. We remain disappointed that a permanent approach continues to be adopted in the case of mandatory primary frequency response (PFR) and that the Commission continues to support the enduring nature of these provisions. Mandated provision of services is counter productive in the long run and instead of it being sunset at some stage the Commission and AEMO keep adding more provisions. Snowy Hydro supports all mandatory provisions being removed both existing and newly proposed provisions and that a well functioning market which encourages more investment is formed.

Snowy Hydro believes the Commission should take a clear leadership role and follow its core objectives. In particular, it is critical that the Commission adheres to the National Electricity Objective (NEO) and the National Electricity Rules (NER)'s market design principles and does not simply support mandatory requirements because they may be easier to implement than market-based mechanisms. Mandating the supply of services may appear to enhance system security but it does not encourage investment and ultimately reduces the supply of those services.

The rule change and requirement for mandated services is evidence that AEMO does not believe their new frequency performance payments arrangements will be sufficient to drive participation, let alone reserves. The Commission notes that the new frequency performance payments arrangements are intended to encourage frequency response over and above the minimum requirements under the mandatory PFR requirement but at the same time requires the need for more mandated services showing little faith to the new payment arrangements.


The Commission should adapt market processes to cater for the new environment of greater variable renewable energy penetration and generation units' governor responses consistent with the NEO. There continue to be serious costs which have not been properly acknowledged by the Commission instead the implementation of further reforms to appropriately value and reward the provision of frequency control services is being ignored simply on a cost analysis rather than assessing the benefits of more investment. Appropriately structured incentives that align with existing market structures continue to be the most cost effective and efficient means of supporting the provision of primary regulating response and addressing the current concerns with frequency performance.

A mandatory requirement is not a complete solution and will not incentivise the provision of primary frequency response. Snowy Hydro believes that the Commission should consider a market based mechanism, appropriately aligned with power system stability fundamentals that enables a technically sound solution through the most efficient allocation of resources in the long term.

The Commission is aware that stakeholders may have concerns around the continued consideration of mandatory PFR obligations at this time. However the Commission notes that regulatory arrangements should act to reduce the overall perceived financial risk faced by potential investors in power system plant when the biggest risk faced by potential investors is that there won't be any sufficient investment signals for participants which can only be provided through a market.

We welcome the Commission directly acknowledging that this comes at a cost noting that *"these proposed changes go beyond the existing obligation for scheduled and semi-scheduled generators to provide PFR when generating and are likely to impose material costs for batteries operating in the NEM."* This assessment needs to be done and re-done on also assessing the cost faced on pumped hydro and gas generation assets as part of the mandatory aspect of PFR. Specifically the cost of mandating these services will have on the lack of investment in the market and what it will do to existing services.

The mandating of services undertaken by AEMO negatively impacts investment and violates the technology neutrality principle that underpins the NEM which will lead to inefficiencies, as it would not encourage other technologies to contribute to a solution. Therefore should the mandatory PFR obligations for bidirectional plant proceed, the Commission and the AEMO should bring forward the PFR payments at a minimum for all mandated services.

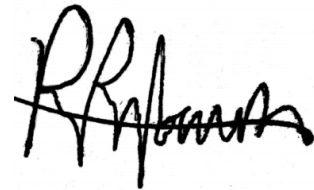


About Snowy Hydro

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. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro appreciates the opportunity to respond to the Consultation Paper and any questions about this submission should be addressed to me by email to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

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

Panos Priftakis
Head of Wholesale Regulation
Snowy Hydro

