

8th October 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submission lodged online at: www.aemc.gov.au

Project Number: EMO0030

Dear Mr Pierce

Strategic Priorities for Energy Market Development 2015: Discussion Paper

Snowy Hydro appreciates the opportunity to provide input to the AEMC's strategic priorities for energy market development. While we generally support the AEMC's strategic priorities, for each of the three identified strategic priority areas we have the following comments.

Consumer Priority

For this priority the AEMC have highlighted three areas of focus: engagement, participation, and protection. We believe engagement is about raising awareness on how to effectively compare electricity and gas offers. Importantly, as highlighted by the AEMC, "how consumers respond to this information is up to them"¹.

We would like to see the AEMC recognise in its strategic priorities that participation is a multi-facet decision and a lack of participation should not be seen as failure. For instance, consumers simply may not want to participate due to transaction costs, brand loyalty etc. A simple analogy is groceries may be cheaper down at Aldi's but a consumer can't be bothered to shop there because there's a Coles down the road and he/she has to incur a transaction cost to get to Aldi's. Hence a key objective may be only informing the consumer of choice, and not coming to any conclusion when the consumer chooses not the act.

While Snowy Hydro supports economically efficient demand side response, we must not forget the other side of the coin is the opportunity cost of not consuming i.e. air conditioners running when there have been consecutive 40°C days. Further to this, providing consumers with the ability to respond to price signals must be cognisant of costs to the Registered Participants in the NEM. For instance, in our view the demand side response mechanism rule change if ratified would impose real costs to Registered Participants due to system and metering changes, distort the function of the secondary markets, and would have negligible benefits to some class of consumers at the expense of another class of consumers. We argue the supply/demand balance is not as tight as when the "need" for demand response was first highlighted (i.e. back in 2009) and the current market and commercial incentives already facilitate demand side response where it is economically efficient. On this basis we don't believe facilitating demand side response through the demand response mechanism should remain a strategic priority.

¹ AEMC, Strategic Priorities for Energy Market Development, page 14.

In terms of consumer protections we espouse a forward looking approach to regulation which could pre-empt distortions caused by the up-take of new products or services. For instance, the exponential growth of solar PV systems has favoured those consumers with panels disproportionately to those consumers without panels due to network tariffs which fail to recognise the sunk cost of the distribution network needs to be recovered efficiently and equitably from all consumers.

Gas Priority

The approach AEMC have taken to gas development on balance has been satisfactory. Snowy Hydro supports incremental improvements to price transparency, harmonisation of gas days, and improvements to pipeline trading. In line with good regulatory practice, we expect to see detailed cost benefit assessment before any major changes to wholesale gas markets are proposed.

Market and Network Priority

From available evidence the energy only market design has been robust and efficient even with unprecedented policy uncertainty. However, we support closer consideration of energy and climate change policy to ensure both can be met as efficiently as possible.

It is evident that generation is exiting the market on a commercial basis and this natural attrition should continue on the proviso that governments don't give false hope of compensation which would encourage uneconomic plant to stay committed for longer. Hence we support the AEMC's view that²:

The AEMC maintains that the market is providing efficient signals for generator exit, as evidenced by the mothballing or permanent closure of plant in South Australia, Victoria, NSW and Queensland in recent years.

Snowy Hydro believes competition in new products and services must be on a competitively neutral basis otherwise the benefit to consumers would be unsustainable over the long term. A key component of competitive neutrality is regulatory neutrality between existing Registered Participants and new entrants. Regulatory costs imposed on Registered Participants are ultimately passed on to end consumers in higher prices. This becomes even more problematic when Registered Participants providing the same service / output as New Entrants face different regulatory costs/burdens. Our concern is if consumer protection is achieved by only regulating the incumbent Registered Participants, this will allow New Entrants an unfair competitive advantage.

It would be also inefficient to assume the market share of New Entrant service providers will be small and hence any regulatory competitive advantage they may have would be negligible. As highlighted earlier in this submission the uptake of solar PV systems has created distortions in the efficient and equitable recovery of distribution network costs. Had the regulatory arrangements recognised the potential for this outcome to occur, regulations and/or Rules would have been in place to ensure owners of solar PV systems pay their fair share of distribution network costs.

Snowy Hydro is also concerned with the boundary between regulated businesses and competitive Market Participants in light of new technologies such as battery storage.

² AEMC, Strategic Priorities for Energy Market Development, page 27.

Encroachment from regulated businesses on an unlevel playing field would negatively impact on innovation in the competitive segments of the supply chain. This would be a perverse outcome given the success of the NEM since it was established has been founded on a clear demarcation between the regulated networks and the competitive wholesale and retail markets.

Summary

Snowy Hydro appreciates the opportunity to respond to this consultation and we generally support the AEMC's strategic priorities for energy market development.

With the consumer priority we believe the key objective should be only informing the consumer of choice, and not coming to any conclusion when the consumer chooses not the act. Additionally we don't believe facilitating demand side response through the demand response mechanism should remain a strategic priority.

With the market and network priority we believe competition in new products and services must be on a competitively neutral basis otherwise the benefit to consumers would be unsustainable over the long term. Additionally we are also concern with the boundary between regulated businesses and competitive Market Participants in light of new technologies such as battery storage.

Should you have any enquires to this submission I can be contacted on kevin.ly@snowyhydro.com.au or on (02) 9278 1862.

Yours sincerely,



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