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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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Reliability Frameworks Review - Issues Paper

Snowy Hydro Limited welcomes the opportunity to comment on the Reliability Frameworks Review Issues Paper.

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.

Australia has undergone a number of climate policy changes over the past 10 years. This has resulted in un-coordinated Commonwealth and State policies, and a lack of integration of climate change policies with energy policies. This has led to distortions to investment signals. The investment in generation required by the industry cannot occur without credible and enduring national energy and climate policies. Snowy Hydro therefore advocates for a national and integrated approach to climate change policy to ensure the stability and security of the electricity power system.

Snowy Hydro strongly advocates for the establishment of new markets to provide the necessary pricing signals for complementary services such as inertia and fast frequency response.

We highlight that forward electricity markets are in contango where future forward electricity contracts are cheaper than near dated forward contracts. This is despite the fact that there is likely to be at least 5000 MW of new renewable generation to be built by the end of 2020. What this observations says is that the collective consensus of all Market Participants and Financial Intermediaries is that the National Electricity Market (NEM) should revert to lower electricity prices. The key message here is that the development of reliability frameworks for the NEM should be done in a considered and evidenced based manner without the urge for knee jerk responses to the current macro environment in the NEM.

Assessment Principles

The AEMC's principles are sound. Snowy strongly agrees with the flexible principle because some issues in specific NEM regions may be structural in nature and therefore regulatory frameworks may be a blunt instrument to deal with a specific issue. Our point is that NEM wide solutions or changes to reliability regulatory frameworks should not be put in place to address issues that have arisen in only a specific Jurisdiction / Region.

Assessment Approach

The assessment approach should define the issue and/or problem and determine if the problem is material. The materiality determination is important as there will inherently be trades-offs in costs and implementation from as range of options to address the defined issue.

Forecasting

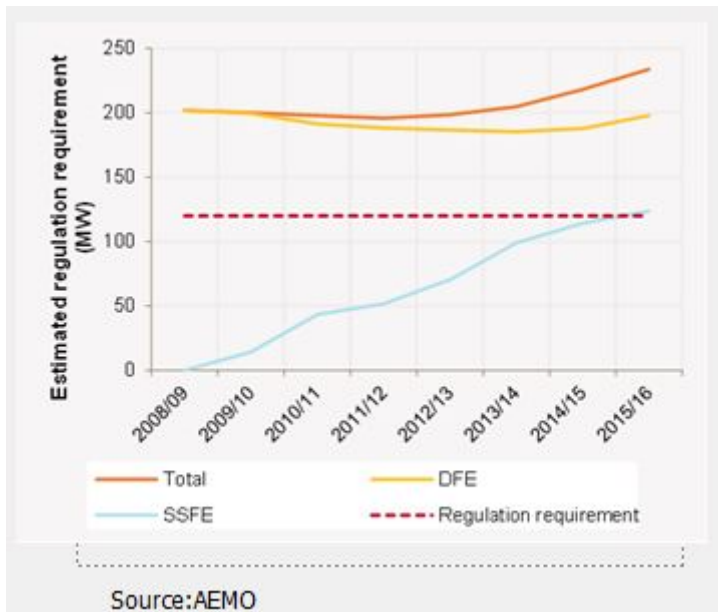
Snowy Hydro believes AEMO forecasting errors are potentially impacting on NEM reliability.

The Graph 1 below was from a DigSilent presentation. Digsilent states in the presentation¹:

- Increases in forecasting errors could contribute to frequency regulation deterioration (and an increased requirement for regulation FCAS)
- The Graph 1 below shows 99% POE for demand forecast error (DFE) and semi-scheduled forecast error (SSFE) over time
- Suggests that forecasting error could be a contributing factor
- Load forecast error includes rooftop PV contribution, which probably accounts for the change in DFE

Snowy requests more transparency into AEMO's forecasting processes and methodologies. Further to this, Market Participants want to know what AEMO intends to do to improve its forecasting accuracy.

¹ DIGSilent, AEMO Regulation Frequency Analysis Review of frequency regulation in the normal operating frequency band, 9 August 2017



Graph 1

Options to accommodate intermittent generation

Snowy supports the Finkel Generator Reliability Obligation approach in principle. Where possible this should be achieved through a market based mechanism.

Credible contingencies

Snowy Hydro supports the current definitions of the credible contingencies and does not support AEMO's rule change proposal.

AEMO's proposed change will almost certainly lead to an increased frequency of AEMO intervention in the Market. AEMO has already indicated that it intends to intervene in the Market to remove any Lack of Reserve (LOR2) conditions to maintain spinning reserve in excess of the largest credible contingency using either dispatch of the RERT or via Clause 4.8.9 Directions.

Market intervention will lead to the more frequent imposition of Intervention Pricing. Directions or RERT activation to maintain excess spinning reserve may result in in-service generation being displaced in volume.

This may over time, impact contract offers for hedging in the financial markets if AEMO intervention becomes a routine feature of the market. Such as outcome would be contrary to the NEO.

Interconnectors

Interconnectors and major transmission corridors can play an important role to the facilitation of competition and they allow the sharing of electricity between regions which improves both reliability and system security.

Snowy Hydro supports an integrated grid plan for the NEM transmission network which identifies any relevant enhancements to major transmission corridors which will allow trade between NEM regions or trade to large load centres in each region. The integrated grid plan would also identify renewable energy zones across all NEM regions and identify transmission network routes to efficiently connect the renewable energy zones to existing transmission infrastructure.

Contract market

If generation and load become more responsive to the Spot market then it would become increasingly important that both non-schedule generation and load informs the market of their intent. Transparency is key to allowing providers of risk management products to make available contract volumes which are efficiently priced. A lack of transparency on the intent of non-scheduled Participants will drive an additional risk premium to contracts.

Contract markets will evolve and new products will form. What is needed is stable policy and regulatory frameworks.

Efficacy and efficiency of information provisions

Snowy Hydro believes there is scope to improve administration and minimise the risk of duplication from a range of reports including the EAAP, ES00, and PASA.

Role of interventions

The following are key principles for the use of interventions in the NEM.

- Must only be used as a last resort
- When used must minimise the distortionary effects to the primary NEM Spot and Contract markets
- Adequate compensation in a timely manner so Participants are no worse off than if the intervention had not occurred

All these principles are part of providing certainty for Participants to invest in long lived assets.

Triggers for interventions

Snowy Hydro believes that there is sufficient transparency in existing triggers for intervention. But this support is only within the current known definitions of Lack of Reserve (LOR). We will have concerns if these definitions are modified through ratification of AEMO's LOR rule change which ultimately will provide AEMO with wide discretion to amend triggers for intervention.

Snowy Hydro appreciates the opportunity to participate in this consultation process. For further clarification on our submission, contact me on kevin.ly@snowyhydro.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Ly', with a horizontal line underneath.

Kevin Ly
Head of Wholesale Regulation