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Australian Energy Market Commission
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Strategic Priorities for the Australian Energy Sector – Discussion Paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Discussion Paper from the Australian Energy Market Commission (the Commission) on the Strategic Priorities for the Australian energy sector.

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 across New South Wales, Victoria and South Australia including the iconic 4,100MW Snowy Mountains Hydro-electric Scheme. Through our retail businesses, Red Energy and Lumo Energy, we serve more than one million customer accounts in the NEM. Snowy Hydro Limited also operates utilities connection business DirectConnect.

Snowy Hydro generally supports the Commission's strategic priorities for energy market development although consider that certain priorities need to be amended to ensure the appropriate focus. We support State and Federal governments working together to put in place a credible and coordinated emissions reduction policy, and do not believe the design of the NEM needs to change. The energy-only market has been robust and delivered the required levels of generation investment, system reliability and security.

We do not support Capacity Markets and are concerned that hydropower's value is not noted in the Commission's discussion on system security and reliability. In addition Snowy Hydro believes governance should be given a greater focus alongside any major energy reforms as without proper consultation and co-operation with industry participants the Commissions' proposed goals would not be efficient met and in the long term interests of consumers.

Current Market

There is currently no significant evidence that the NEM is failing to deliver sound outcomes with reliability being essentially met. Snowy Hydro does not believe the design of the NEM

needs to change. The energy-only market has been robust and delivered the required levels of generation investment, system reliability and security. The decentralised decision making in the NEM has ensured investments have been prudent.

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. These new markets and operate in parallel with using energy and frequency control ancillary service Spot markets.

We advocate for a rigorous and considered approach to assessing issues in the current market and whether any remedies are warranted. It is important to highlight that forward electricity markets are in backwardation 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 observation says is that the collective consensus of all Market Participants and Financial Intermediaries is that the NEM should revert to lower electricity prices. The key message here is that regulatory changes to the NEM should be done in a considered and evidenced based manner without the urge for short term responses/policies which in the long run may be contrary to the long term interest of consumers.

Investment in generation required by the industry however cannot continue to occur without credible and enduring national energy and climate policies. Snowy Hydro advocates for a national and integrated approach to climate change policy to ensure the stability and security of the electricity power system.

Analytical framework and goals

Consumers

Snowy Hydro values the importance of delivering optimum outcomes in the long term interests of consumers. The NEM has served consumers well with market based mechanisms best placed to deliver optimum outcomes in the long term interests of consumers. Snowy Hydro is not of the view that the events in South Australia should be extrapolated as an example of what might happen to the rest of the NEM.

Integration of Policies

We support the broad objective of solving the 'energy trilemma' of energy security, efficiently priced energy and reduced emissions. The Finkel review primarily focused on ensuring system security and reliability in the NEM into the future, within the context of achieving the Trilemma.

The Commission noted that the *"coordination between governments would mean that one overarching policy, and one overarching mechanism, could be introduced across the national electricity market and the individual state and territory targets would be incorporated into*



*the national Target*¹. Snowy Hydro believes that the lack of a national, coordinated approach to climate and energy policy settings has created distortion in the market and an uncertain environment for investment in new generating capacity to meet the future needs of the NEM. We support State and Federal governments working together to put in place a credible and coordinated emissions reduction policy, and implementation mechanism, which will provide increased certainty for investment in the electricity sector.

There is an important role for governments to play in setting stable policy frameworks, then letting markets work to deliver secure, reliable energy and consumer outcomes in response to consumer demands.

We consider regulatory frameworks must focus on competitive neutrality and be technology agnostic, particularly in the consumer protections framework. The regulatory frameworks should outline the desired outcome and focus on the service being delivered to customers, as opposed to the specific technology or service provider delivering them.

Effective markets and regulation

Snowy Hydro does not believe the design of the NEM needs to change. The energy-only market has been robust and delivered the required levels of generation investment, system reliability and security. The decentralised decision making in the NEM has ensured investments have been prudent and the risk of poor investments rests with the Proponent.

Snowy Hydro does not support Capacity Markets. We believe there is difficulty in predicting future electricity use which can lead to under or over investment and that Capacity Markets can limit innovation as other non-generation solutions are not adequately considered. The case history of Jurisdictions with a Capacity Market is a sobering indication of over regulation, perverse incentives, and increased costs.

The allocation of risk with Capacity Markets is inappropriate as Governments bear the risk of under or over investment and due to the long term nature of the investments, Capacity Markets could be subject to uncertainty that would result from varying views between Government of the day and Opposition parties. Without a long term, consensus agreement on energy policy there is no certainty that investments made under a Capacity Mechanism would be economic during the life of the asset.

The Commission has noted that *“a further consequence of the change in the generation mix in the NEM relates to system security and reliability”*². With the energy industry’s investment focus shifting to a combination of firm lower emissions gas generation,

¹ Australian Energy Market Commission, “Strategic Priorities for the Australian energy sector, discussion paper, 12 September 2017, Sydney, pp40

² Australian Energy Market Commission, “Strategic Priorities for the Australian energy sector, discussion paper, 12 September 2017, Sydney, pp15



renewables and enabling technologies, more than 2,000 megawatts of firm generation exited the market in Australia last year.

Snowy Hydro however is disappointed that hydropower is not noted in the Commission's discussion on system security and reliability. Snowy 2.0 would help the NEM transition to meeting Australia's commitment to reduce emissions by 26 per cent to 28 per cent of 2005 levels by 2030 and maintain reliability. The 2,000MW of additional, dispatchable, and flexible hydro generation would play a key enabling role to support the increase in penetration of intermittent generation such as wind, rooftop PVs, and large-scale solar. Additionally this new hydro generation could provide ancillary services such as inertia and spinning reserve which are not available from asynchronous generation from wind and solar.

The Commission could look at more explicitly referencing hydropower in the security and reliability discussion and particularly the value of flexibility, dispatchability and the provision of inertia.

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.

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.

We believe Government intervention must only be used as a last resort. When Government intervention is used it must minimise the distortionary effects to the primary NEM Spot and Contract markets and adequate compensation should be provided in a timely manner so Participants are no worse than if the intervention had not occurred. All these principles are part of providing certainty for Participants to invest in long lived assets.

Governance

Energy markets remain a challenging area. As the Commission has correctly identified, better integration of environmental and energy policies would be welcome. We believe it is important that the Commission work closely with the Australian Energy Market Operator (AEMO), industry representatives and other technical experts to investigate whether any



regulatory responses may be required to address market changes. We therefore suggest the following change to the analytical framework.

Figure 1: AEMC Analytical Framework for COAG advice

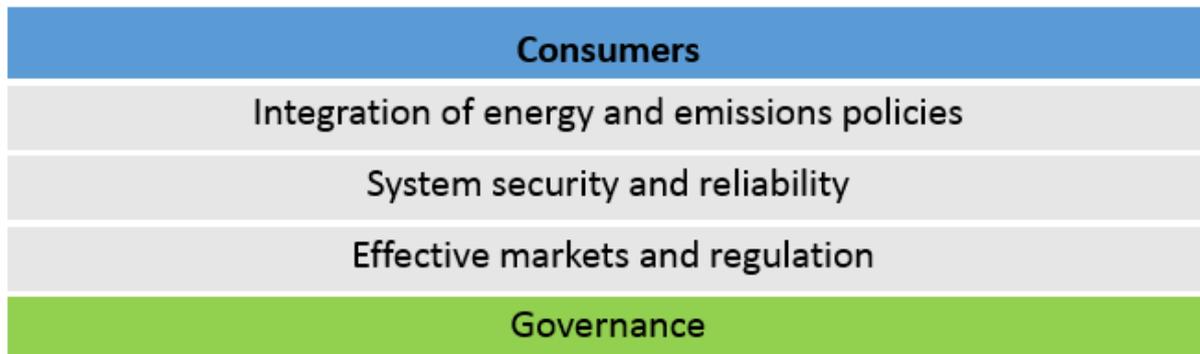


Figure 2: Snowy Hydro Analytical Framework for COAG advice



In figure 2, governance presides across the three core focus areas which collectively can deliver benefits to the long term interest of consumers. The principles underpinning strong governance would include adequate consultation, transparency, and demarcation of institutional roles.

In addition with several ongoing processes underway we recommend that the Commission focuses on monitoring these initiatives and their outcomes by properly consulting with industry participants prior to considering a major work stream of its own.

As Australia looks to meet its climate change policy objectives, the alignment of carbon abatement policy and energy policy more broadly will take on even greater importance. Going forward it is crucial that that the market design allows for the efficient integration of these technologies into the broader energy mix, allowing for continued system reliability and security. The Commissions' priorities provide direction although any rule change or review that arises in the future should be assessed on its merits.



Snowy Hydro appreciates the opportunity to respond to the Discussion Paper. Any questions about this submission should be addressed to Panos Priftakis, Regulation Manager, by e-mail to 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
Snowy Hydro

