

7<sup>th</sup> April 2014

Reliability Panel  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submission lodged online at: [www.aemc.gov.au](http://www.aemc.gov.au)

Project Number: REL0051

Dear Mr Henderson

**Submission to: Reliability Standard and  
Settings Review 2014 – Draft Report**

Snowy Hydro Limited welcomes the opportunity to make a submission to the Reliability Panel's Draft Report.

Snowy Hydro sees no valid reason why the Maximum Floor Price (MFP) is not indexed lower in-line with the indexing of the Maximum Price Cap (MPC) because off loading / cycling costs also increase in-line with the Consumer Price Index (CPI). Therefore generators require the MFP to be progressively lowered in-line with the CPI to allow the cost of excess generation to be efficiently managed.

We are puzzled by the view put forward by the Reliability Panel on page 9 of the Draft Report that the MFP is unrelated to investment signals. The purpose of the reliability settings is to set the pricing envelope. The aim of these reliability settings is to set as wide an envelope as possible to encourage a market response. Using this principle a sufficiently negative MFP may provide pricing signals to encourage new technologies such as large battery storage to come into the NEM and alleviate the excess generation issues faced by thermal generators.

Our original position was to have both the MPC and the MFP indexed. That is, on an annual basis to have the MPC indexed higher and the MFP indexed lower. This would have maintained the current relationship between the MPC and the MFP. In light of the Reliability Panel's draft report recommendation to index only the MPC and leave the MFP at a nominal -\$1000/MWh we are compelled to modify our position.

We recommend leaving the MPC at a nominal price of \$13,500 that would apply from 1 July 2014. The MFP from 1 July 2014 remains at the nominal value of -\$1000/MWh. Both these MPC and MFP nominal prices would be fixed until they are reviewed as part of the Reliability Panel's four yearly review of the Reliability Settings.

We have derived this view on the basis of:

- It's clear that the MPC is an artificial construct and there exists surplus generation in the NEM. Hence there is no need to increase the MPC to encourage new generation;
- Our key issue of maintaining market access for generators to its own Regional Reference Node (RRN) becomes the key consideration. Locking both the MPC and

the MFP at the nominal values preserves the current level of access to the RRN for intra-regional generators sell forward hedge contracts in their own pricing region.

In the next section we outline evidence to support our recommendation.

### **Evidence to support indexing the MFP or locking in MPC and MFP at nominal values**

The following section looks at the MPC and how that would affect generators with respect to being constrained off. To avoid being constrained off generators can bid to -\$1000, and if their coefficient in a constraint is sufficiently negative then the Effective Price will be larger than MPC ensuring dispatch.

Table 1 below shows constraints involving Macquarie Generation's power stations (predominantly Bayswater) and the Queensland New South Wales Interconnector (QNI). The Effective Price is based on QLD exporting to NSW at \$100/MWh and Macquarie Generation bidding at the minimum (MFP) of -\$1,000/MWh.

The formula used is:

$$\text{Effective price} = \text{QLD coefficient} \times \$100 + \text{Bayswater coefficient} \times (-\$1000)$$

A reduction in the QLD price will reduce the 'Effective Price' and vice-versa.

MPC is priced at:

- \$13,100 (Now)
- \$13,500 (From 1 July 2014)

The MFP is -\$1000

Effective Prices between \$10-14k could be affected by the change in MPC price in line with the current indexing.

From Table 1 below and using the assumption of the QLD price at \$100/MWh, Macquarie Generation bids at the Floor Price of -\$1000/MWh, and the MPC is \$13,100 (Now) means in the first 9 constraints where the Effective Price is LESS than \$13,100, Macquarie Generation would be constrained off in preference to flows across the QNI TO SUPPLY AN ADDITIONAL 1 MW OF DEMAND IN NSW.

As MPC is indexed and increases more of the constraints involving Macquarie Generation's power stations becomes increasing constrained off. At a MPC of \$13,500 (from 1 July 2014) an additional constraint (ie. the first 10 constraints) will result in Macquarie Generation being constrained off in preference to QNI flows to supply an additional 1 MW into the NSW region. The implication of this is Macquarie Generation will increasingly experience higher contracting risk when forward selling into its own (NSW) region.

We have outlined in numerous submissions to the Transmission Frameworks Review that:

1. The Forward / Contract market is the primary market and the Spot market the secondary balancing market;
2. A reduction in the ability for generators to manage their dispatch risk when selling forward contracts in the Contract market will result in less Contract volume being available to Retailers / Customers in that region;
3. The Contract volume reduction in point (2) will not be replaced in full by an increase in inter-regional trading as generators face additional transmission risks which limit

their ability / risk appetite to offer the same volume of Contracts as compared to generators located in the same Region; and

4. Any regulatory change that purports to improve dispatch efficiency at the expense of Contract market efficiency would result in net overall efficiency losses as the Contract market is the key/primary market (point 1).

Table 1

Constraint ID	Description	QNI coefficient	Bayswater coefficient	Plant	Effective price
N>>N-NIL_BAN_1N	Out= NIL, avoid Liddell to Tomago(82) O/L on Liddell to Newcastle(81) trip; Feedback	10	-9	NLDP1	\$10,000
N>>N-NIL_BAN_1E	Out=Nil, avoid Liddell to Newcastle (81) O/L on loss of Liddell to Tomago (82), Feedback	10.31	-9.31	NLDP1	\$10,341
N>>N-NIL_BAN_1R	Out= Nil, avoid O/L Vales Point to Munmorah (23) on trip of Eraring to Vineyard (25), Feedback	10.53	-9.53	NBAY1	\$10,583
N>>N-NIL_1O_OPENED	Out= Nil, avoid Liddell to Newcastle (81) O/L on Bayswater to Regentville (31) trip, Feedback	11.11	-10.11	NLDP1	\$11,221
N>>N_31+32_N-2_F_CL	Out = Nil, avoid Liddell to Tomago(82) O/L on Bayswater to Sydney West &Bayswater-Regentville(31+32) trip; Feedback	11.15	-10.15	NBAY1	\$11,265
N>>N_32+38_N-2_F_CL	Out = Nil, avoid Liddell to Tomago(82) O/L on Bayswater to Sydney West & Regentville-Sydney West(32+38) trip; Feedback	11.15	-10.15	NBAY1	\$11,265
N>>N_31+32_N-2_D_CL	Out = Nil, avoid Liddell to Newcastle(81) O/L on Bayswater to Sydney West &Bayswater-Regentville(31+32) trip; Feedback	12.05	-11.05	NBAY1	\$12,255
N>>N_32+38_N-2_D_CL	Out = Nil, avoid Liddell to Newcastle(81) O/L on Bayswater to Sydney West & Regentville-Sydney West(32+38) trip; Feedback	12.05	-11.05	NBAY1	\$12,255
N>>N-NIL_BAN_1O	Out= Nil, avoid Liddell to Newcastle (81) O/L on Bayswater to Regentville (31) trip, Feedback	12.05	-11.05	NLDP1	\$12,255
N>>N_BWSW_BWRG_N-2_F	Out = Nil, avoid Liddell to Tomago(82) O/L on Bayswater to Sydney West &Bayswater-Regentville(31+32) trip; Feedback	13.11	-12.11	NBAY1	\$13,421
N>>N_31+32_N2_F_OPEN	Out = Nil, avoid Liddell to Tomago(82) O/L on Bayswater to Sydney West &Bayswater-Regentville(31+32) trip; Feedback	13.34	-12.34	NBAY1	\$13,674
N>>N_31+32_N2_D_OPEN	Out = Nil, avoid Liddell to Newcastle(81) O/L on Bayswater to Sydney West &Bayswater-Regentville(31+32) trip; Feedback	14.37	-13.37	NBAY1	\$14,807
N>>N_32+38_N2_D_OPEN	Out = Nil, avoid Liddell to Newcastle(81) O/L on Bayswater to Sydney West & Regentville-Sydney West(32+38) trip; Feedback	14.37	-13.37	NBAY1	\$14,807
N>>N_BWSW_BWRG_N-2_D	Out = Nil, avoid Liddell to Newcastle(81) O/L on Bayswater to Sydney West &Bayswater-Regentville(31+32) trip; Feedback	14.65	-13.65	NBAY1	\$15,115
N>>N-NIL_1N_CLOSED	Out= NIL, avoid Liddell to Tomago(82) O/L on Liddell to Newcastle(81) trip; Feedback	14.95	-13.95	NBAY1	\$15,445

In conclusion we recommend leaving the MPC at a nominal price of \$13,500 that would apply from 1 July 2014. The MFP from 1 July 2014 remains at the nominal value of -\$1000/MWh. Both these MPC and MFP nominal prices would be fixed until they are reviewed as part of the Reliability Panels four yearly review of the Reliability Settings.

Snowy Hydro appreciates the opportunity to respond to this review. I can be contacted on (02) 9278 1862 if you would like to discuss any issue associated with this submission.

Yours sincerely,

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

Kevin Ly  
Manager Market Development & Strategy