

11th August 2016

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

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

Project Number: REL0059

Dear Mr Henderson

Reliability Standard and Settings Guidelines – Issues Paper

Snowy Hydro appreciates the opportunity to comment on the Issues Paper. Snowy Hydro believes it is important and relevant to acknowledge that the NEM has delivered a steady stream of investments to meet the reliability standard. These investments have been predicated on a stable regulatory environment where any relevant changes to the Reliability Standard and Reliability Settings have been done through a rigorous and transparent process. This process and the governance arrangements which underpin the current arrangements have ensured investors are provided sufficient confidence to invest in long lived assets with 40+ years of economic life.

In this context we support the current methodology for determining the reliability standard and settings. All the available evidence suggests the market will continue to meet or exceed the reliability standard with the current levels of Market Price Cap (MPC) and Cumulative Price Threshold (CPT).

Analytical framework

We support the Panels identification of the factors which would need to be assessed in the review of the reliability standard and settings. These factors include:

- Maintaining stable and consistent regulatory frameworks
- Sending effective price signals
- Delivering an acceptable level of reliability

These can be competing factors that will require the Panel to consider the optimal trade-off to meet the National Electricity Objective.

Another factor that should be considered for inclusion in the analytical framework is an acceptable transitional period. For example, it may be acceptable for the unserved energy to be above the standard for a region in any one year. What really matters is that in the long

run (ie. over multiple years) the reliability standard and settings sends the appropriate investment signal for new investments or the retention of existing assets.

Level and form of the standard and settings

Snowy Hydro supports the current form of the standard expressed in terms of the expected maximum unserved energy of 0.002% for each region of the NEM in each financial year. We also support the reliability settings of the Market Price Cap (MPC), Market Floor Price (MFP), and the Administered Price Cap (APC). Each of these settings serves a specific purpose.

The guidelines could clarify the purpose of each setting to inform the market and improve consistency of understanding amongst all stakeholders.

The matters discussed in section 2.2 of the Issues Paper are appropriate matters for consideration in formulation of the guidelines.

Snowy Hydro also highlights the following views:

- Significantly increasing the MPC beyond current levels may create unintended problems such as increased costs in managing risks, create an additional cost barrier for new entrants, and reduce overall competition in the market.
- We believe the CPT should remain at 15 times the level of the MPC. Our analysis suggests that modifying the CPT to a smaller ratio of the MPC (ie. less than 15 times) would significantly increase trading days that are subjected to the Administered Price Cap and would thereby send the wrong signals to stakeholders about the sustainability of the market.

Modelling

Generally we agree that the modelling methodology should not be overly prescriptive so as to be able to accommodate changes in the market. We believe that market modelling is important but it should be only one of a number of inputs used by the Reliability Panel to inform its determination of the reliability standard and settings.

Conclusion

Snowy Hydro supports maintaining the existing reliability standard and its definition. We believe to date the evidence suggests that there has been sufficient generation investment and demand side response to meet the reliability standard and therefore see no need to change the standard or to materially change the reliability settings.

Snowy Hydro appreciates the opportunity to respond to the Issues Paper. I can be contacted on 0407224439 if you would like to discuss any issue associated with this submission.

Yours sincerely,



Kevin Ly
Head of Wholesale Regulation