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Energy Security Board
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Firmness Principles for Qualifying Contracts Consultation Paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation Paper from the Energy Security Board (ESB) on the Firmness Principles for Qualifying Contracts.

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. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro supports the principles proposed by the ESB in the consultation. We believe that if the Retailer Reliability Guarantee (RRO) is triggered, "firmness" of contracts used for compliance will take into account the firmness factor applied to each contract considering characteristics such as strike price, the variability and profile of volume settled under the contract and the likelihood of the contract providing cover to the buyer during the reliability gap.

With the energy industry's investment focus shifting to a combination of firm lower emissions gas generation, renewables and enabling technologies, more than 3,000 megawatts of firm generation exited the market in Australia over the last few years. For an electricity system to work properly and contribute to reliability there needs to be sufficient dispatchable and flexible capacity that can operate continuously on a sustained period of time. It is for that reason Snowy Hydro agrees with the criteria set out by the ESB in assessing the firmness of contracts being:

- The strike price;
- The variability and profile of volume settled under the contract;
- The likelihood of the contract providing cover to the buyer during the reliability gap; and;
- Any other contractual terms which limit the coverage or otherwise reduce the incentive for a seller to "defend" the position.

The firmness of qualifiable contracts is central to the effectiveness of the RRO. Hence we note the importance of qualifiable contracts recognising the quality and duration of the supply and/or demand response source. Snowy Hydro's preference is that there is an appropriate duration criteria where the source can meet a period of peak demand for 4 continuous hours. It is important that the source must have a high level of reliability such that it can be relied on to start-up and supply energy when it is required.

Snowy Hydro believes the existing market design can be relied upon to support reliability in the long-term with the NEM not expected to confront immediate reliability crisis. It is for that reason that we believe that the principles should ensure that contracting innovation is not stagnated and market participants remain free to develop arrangements to satisfy the RRO and operate in the market.

“To improve the transparency of the compliance process and decrease the uncertainty some liable entities may face while developing their firmness methodologies, the ESB is proposing a process where liable entities will seek approval of their methodology from the Australian Energy Regulator (AER) prior to the submission of their contract positions at T-1 (but following the triggering of the obligation at T-3).”¹ Snowy Hydro supports this approach and understands that the ESB want contracting positions linked to physical generation. There is however still a significant amount work the ESB will need to do with the industry to understand the arrangements.

Snowy Hydro notes the proposal to *“appoint a suitability qualified independent auditor to prepare an audit report declaring the net contract position submitted to the AER.”²* Snowy Hydro welcomes the AER assessing compliance with the RRO using an external auditor’s assessment of the liable entities’ qualifiable contracts. The auditor would assess whether a liable entity has adopted a reasonable approach to measuring firmness. The approach will provide assurance to the AER that reported positions are realistic and include only qualifying contracts that meet a period of peak demand.

It is important that the ESB continue to provide further detail to market participants to ensure that the RRO is flexible and not does not stifle the market allowing time for industry to prepare for market changes.

Snowy Hydro appreciates the opportunity to respond to the Consultation 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,



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Snowy Hydro

¹ Energy Security Board, 2018, “Firmness principles for qualifying contracts Consultation Paper”

² Energy Security Board, 2018, “Firmness principles for qualifying contracts Consultation Paper”