

3 September 2018

Energy Security Board
c/- COAG Energy Council Secretariat
John Gorton Building
King Edward Terrace
Parkes ACT 2600

Submitted electronically: info@esb.org.au

National Energy Guarantee Reliability Requirement Pre-condition Options

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Policy Options Paper from the Energy Security Board (ESB) on the National Energy Guarantee Reliability Requirement Pre-condition Options.

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 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.

The high level design was robustly consulted on and therefore should remain the default unless there are demonstrably more efficient options. It is for that reason that we believe that the ESB's developed alternative options for activating the reliability obligation are not required. Specifically Snowy Hydro believes:

- Increased Ministerial powers will lead to multiple interventions that will affect the NEM's efficient operation. Increasing interventions lead to additional cost and market distortions which raise uncertainty for all current and future investments. Diminishing and duplicating the roles of the Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER), and Australian Energy Market Operator (AEMO) is damaging to the efficient operation of energy markets.
- The removal of T-3 determination leaving only a T-1 timeframe would not provide sufficient confidence or time for market participants to respond. The T-3 timeframe allows the market

participant to have confidence in meeting the reliability standard, should there be a gap, and allows sufficient time to respond providing confidence in the market.

- The existing ESOO and MT PASA methodology should be reviewed in detail and improved significantly before there is consideration of increasing the precondition to the reliability obligation to T-5. In addition to this, in 5 years time we expect Snowy 2.0 and other significant dispatchable generation technologies to resolve today's concerns making the T-5 unwarranted.

Snowy Hydro supports retaining the high level design with a trigger period of 3 years for retailers to meet a forecast reliability gap which will allow for more current and complete information. If retailers do not meet the requirement by the compliance date, the last resort function will be triggered by AEMO 1 year before the forecasted reliability gap.

Ministerial powers to activate the reliability obligation

Snowy Hydro does not support Ministers for each of the NEM-regions having the ability to make a T-1 reliability instrument for their region and the AER not having a role in approving a Minister's decision to make the T-1 reliability instrument. Our major concern is related to the potential for this approach to undermine the structure of the operation of the NEM and the confidence in the market.

The NEM has largely served us well and consistently met its objective of reliable power even through the significant transformation and policy instability over time. There is currently no forecast reliability gap which would require increasing the powers to Ministers. Diminishing and duplicating the roles of the AEMC, AER, and AEMO is damaging to the efficient operation of energy markets.

The National Electricity Law (NEL), National Gas Law (NGL), and National Energy Retail Law (NERL) convey strict obligations with clear responsibilities on the AEMC, AER, and AEMO to perform clear functions that support energy markets in line with the NEO, NGO, and national energy retail objective (NERO). Allowing the Minister's to make decisions on the reliability gap increases the risk of confusion, loss of trust by the industry, and ultimately governance failure.

The AER should have a role in approving decisions impacting the reliability of the NEM. The AER support the effective operation of the market by encouraging parties to provide information that is required for statutory bodies to exercise their functions. Changes to this framework in the NEG would reduce the transparency and predictability of decision making undermining that confidence.

The reliability standard currently requires that there be sufficient generation and transmission interconnection such that 99.998% of annual demand for electricity is expected to be supplied¹. Specifically the greater interconnection between states improves energy security and facilitates quicker reduction in emissions without comprising system security and reliability. In a more

¹ AEMC website, << <https://www.aemc.gov.au/energy-system/electricity/electricity-system/reliability> >>



interconnected NEM, it is inefficient that possible future challenges facing the NEM need be managed by Ministers at a jurisdictional level.

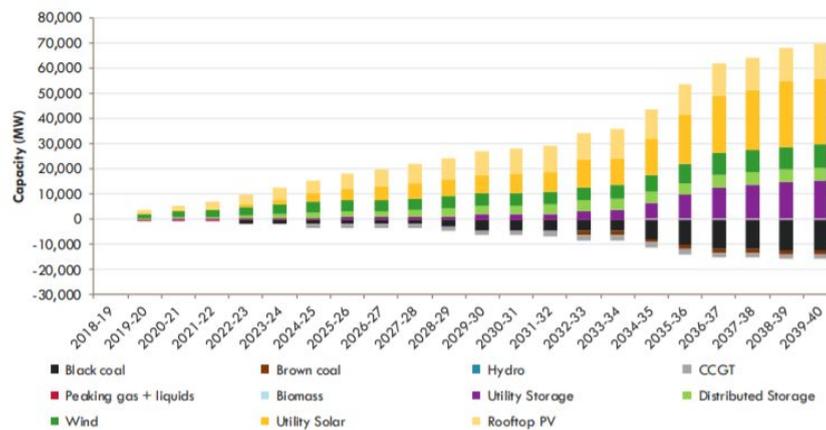
Addition of a T-5 determination or Removal of T-3

Snowy Hydro does not support AEMO requesting a T-5 determination. We understand that deciding the point in time in advance of the forecast reliability gap at which the reliability requirement is triggered and retailers are then required to respond involves a trade-off between the accuracy and completeness of information available at the point in time. However, as noted in our previous submissions to the NEG final design, we believe the forecasting horizon for 3 years is appropriate.

The existing ESOO and MT PASA methodology still needs to be reviewed in detail and improved significantly before there is a discussion on increasing the precondition to the reliability obligation. The MTPASA process was only recently reviewed with the likelihood to be extended to 3 years to facilitate the T-3 determination.

The T-3 timeframe allows the market participant to have confidence in meeting the reliability standard, should there be a gap, and allows sufficient time to respond providing confidence in the market. New generation can take several years to build, so investment decisions must be timely to meet changes in demand and supply. An effective market provides clear, timely price signals for investment and divestment. Figure 1 below demonstrates the projected evolution of the generation mix in the NEM to 2040 in the Neutral case through the year-on-year changes in installed capacity. The large initiatives included in the Neutral case with storage – the Snowy 2.0 and Battery of the Nation initiatives - provide large storage capacities (MW) and energy storages (MWh). The T-1 timeframe would not provide sufficient confidence or time for market participants to respond². Snowy Hydro supports a T-3 timeframe as consulted on in the high level NEG design.

Figure 1 - Relative change in installed capacity in the Neutral case, demonstrating the shift from coal to renewable energy³



² AEMO, 2018, "Integrated System Plan - For the National Electricity Market", pp37-39

³ AEMO, 2018, "Integrated System Plan - For the National Electricity Market", pp38

As previously noted the NEM has largely served us well and consistently met its objective of reliable power even through the significant transformation and policy instability which has occurred over time.

The temptation to make massive changes should be prevented with the transformation of the market leading to significant amount of intermittent energy coming online and large firm storage projects such as Snowy 2.0 expected to resolve today's concerns and issues within five years. We need to proceed with caution to avoid making significant, costly changes that may have unintended consequences.

Snowy Hydro appreciates the opportunity to respond to the Policy Options 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 underneath.

Kevin Ly
Head of Wholesale Regulation
Snowy Hydro

