

22 November 2018

Energy Security Board
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Submitted electronically: info@esb.org.au

Consultation on National Electricity Law amendments

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation from the Energy Security Board (ESB) on the National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Bill 2018.

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 Draft Bill of the Retailer Reliability Obligation (RRO), subject to any potential revisions to the pre-conditions for triggering the obligation and an addition of a trade repository, is broadly consistent with the agreed high level design of the RRO. The existing market design can be relied upon to support reliability in the long-term with the NEM not expected to confront immediate reliability issues. The high level design which was robustly consulted on should remain the default with an effective RRO working with the existing market structures while operating in a way that minimises the administrative, regulatory or compliance burden on retailers and other market customers.

There are certain provisions of the RRO however which are inconsistent to the high level design that require further clarification. The provisions which allow the Australian Energy Market Operator (AEMO) to effectively bypass the requirement for triggering a T-3 instrument prior to a T-1 instrument and requiring liable entities to maintain a net contract position from T-1 to T are inconsistent to the consulted high level design. The inclusion of these clauses and provisions could undermine the operation of the NEM and confidence in the market. It is important that risks are not imposed on retailers and other liable parties who will incur costs to manage these risks through increased levels of hedging or investments in supply, inevitably having costs passed on to consumers.

In addition, Snowy Hydro suggests the ESB reassess the implementation date of July 2019 which would give industry only 6 months to understand the changes and complexities associated with the RRO following the outcome from the COAG Energy Council December meeting.

Trade Repository

We welcome the removal of the establishment of a trade repository by or on behalf of the AER from the list of subject matter for the National Electricity Rules (formerly provision 6R of Schedule 1). With the ESB consulting separately on trade repositories as per the ACCC's Retail Electricity pricing Inquiry recommendation it is important that there is a proper consideration of viable alternatives which

improves transparency without unnecessary cost burdens. We therefore welcome utilising Broker recorded OTC trades and for the industry to work with the Australian Financial Markets Association (AFMA) annual surveys to get more granular OTC reporting. Trade repositories would be expensive to implement and a daily administrative burden on the industry.

The AFMR provides clear evidence that our markets are performing well and contributing solidly to the growth of the Australian economy which clears up misconceptions around the lack of transparency in the market. Rather than any trade repository being established the AFMR survey could be further enhanced to provide the transparency required.

AEMO to request to trigger the reliability obligation without a T-3 instrument

Snowy Hydro opposes the provision that, under certain circumstances, enable AEMO to request to trigger the reliability obligation without a T-3 obligation. We believe this provision is inconsistent with the high level design of the RRO. This provision undermines what has been set for retailers by allowing AEMO bypass the same arrangement.

“The ESB is of the view that some flexibility is required to allow for changing market circumstances where the market is undergoing a transition”¹ however Snowy Hydro believes allowing AEMO to effectively bypass the requirement for triggering a T-3 instrument undermines the market and market participants, allowing AEMO to go outside the market conditions. The T-3 timeframe allows market participants to have confidence in meeting the reliability standard, should there be a gap, and allows sufficient time to respond providing confidence in the market.

AEMO needs to provide comprehensive information in the years preceding T-1 which in the case of a RRO would require at least a T-3. We would expect AEMO to provide information regarding a T-1 being activated for generation that exists over the next 2 years as removing this would effectively remove the need for clear information of the expected supply/demand balance or of any reliability concerns that could be caused by material changes during this period.

If the RRO is to rely on a T-1 trigger for AEMO, this would require well-defined conditions under which it could be activated. The AER should have a role in approving decisions impacting the reliability of the NEM. The AER support the effective operation of the market and we would expect the AER to have oversight over AEMO’s when triggering the procurer of last resort.

Liabe entities should not be required to maintain a net contract position from T-1 to T

Snowy Hydro believes that liable entities should not be required to maintain a net contract position from T-1 to T. Constraining retailer’s ability to trade will lead to inefficient levels of contracting and additional costs that are ultimately borne by consumers. A liable entity should be able to adjust its net contract position at any time between T-1 and T.

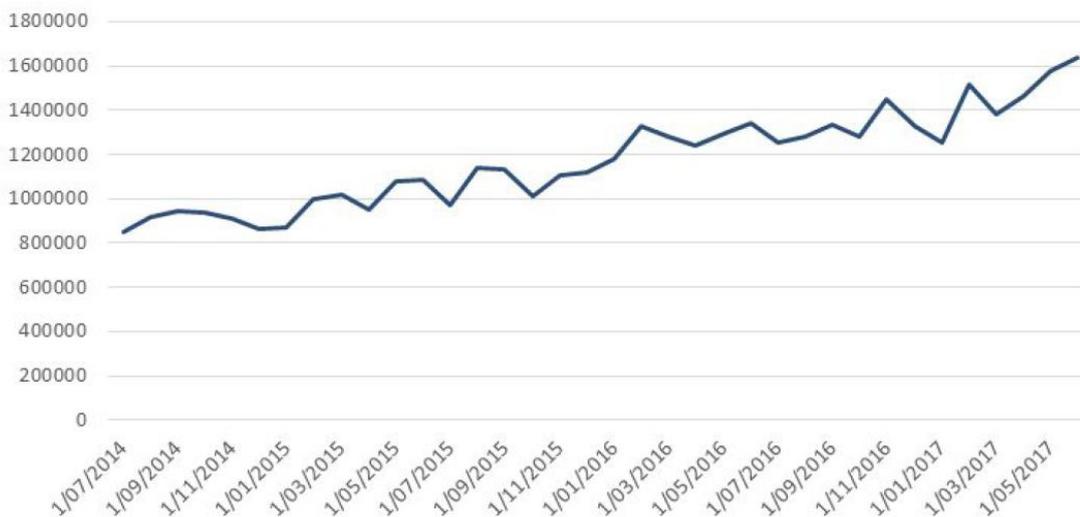
The ESB is of the view that this change will provide incentives to liable entities to undertake greater contracting and greater certainty to the market as this contracting will occur well in advance of the expected gap. Snowy Hydro however believes the costs would outweigh the benefits of this approach as the risks imposed on retailers and other liable parties will increase imposing greater costs to manage these risks through increased levels of hedging which is counter to the overall aim of the RRO to help bring electricity costs down for consumers.

¹ Energy Security Board (ESB), 2018, “Consultation on National Electricity Law amendments”, pp5

Snowy Hydro is concerned that this approach will penalise retailers with no improvement in reliability. It is unlikely that retailers will have entered into the required qualifying contract when a T-1 determination is imposed on them despite monitoring AEMO’s Electricity Statement of Opportunities’ (“ESoO”) forecasts as they come closer to the reliability gap year. The ESOO itself may have indicated no reliability shortfall.

In regards to providing greater liquidity Snowy Hydro believes the market already has extensive trading and re-trading of energy across the NEM. The AFMR survey shows that the number of trades in the NEM has continued to increase (Figure 1), OTC turnover in 2016-17 was 23% of total market turnover with aggregate turnover in all products (both OTC and ASX) in 2016-2017 greater than the NEM System Demand by a factor of 2.8. There are numerous power purchase agreements, options and other bespoke contracts between counterparties which can be used to match supply to demand, and mitigate physical and/or financial risk in the NEM which are not mentioned in the consultation paper².

Figure 1: Number of trades, daily average, ASX & Chi-X³



The RRO needs to work effectively with the existing market structures while operating in a way that minimises the administrative, regulatory or compliance burden on retailers and other market customers. This approach does not achieve this.

Implementation date

The reliability mechanisms of electricity markets are very complex which deserve careful and thorough consideration before embarking on major change. With the ESB expecting to RRO to commence on 1 July 2019 we believe that there needs to be careful consideration on the details of the operation of the mechanism before embarking on major change which will require a significant change to both the retail and generation arm of the Snowy group. Although the ESB has recognised the complexities in the current market outlooks we suggest there should be a sufficient timing buffer to select an appropriate implementation date if industry requires additional time.

² AFMA, 2018, “2017 Australian Financial Markets Report”, << <https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>

³ AFMA, 2018, “2017 Australian Financial Markets Report”, << <https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>

Snowy Hydro appreciates the opportunity to respond to the Consultation. 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 long horizontal stroke extending to the right.

Kevin Ly
Head of Wholesale Regulation
Snowy Hydro

