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Energy Security Board
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Energy Security Board ACCC Retail Electricity Pricing Inquiry Recommendation 41 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 ACCC Retail Electricity Pricing Inquiry Recommendation 41.

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 understands that the Australian Energy Regulator (AER) are required to provide an effective wholesale market monitoring framework with the ESB assessing the tools the AER require to continue providing a report that appropriately includes monitoring, analysing and reporting on the contract market. We however do not believe that imposing additional obligations on industry such as a trade repository is required. The industry continues to work hard to improve transparency through the recent Australian Financial Markets Report (AFMR) which continues to be enhanced to provide the transparency required. The AER can also continue to use the vast array of reports and analysis on the range of public information available through data published by AEMO, the AEMC, and jurisdictional regulators.

Despite the AER's role across both the electricity and gas markets, the significant differences between the two markets make direct comparisons difficult and misleading. The AER should continue to focus on its requirement to monitor and report on the efficient operation of the electricity wholesale market not including the complexities of the gas spot market in its reporting.

In addition, Snowy Hydro believe the AER should have to identify whether the wholesale electricity market is effectively competitive before it can use its compulsory information gathering powers. Should the AER's powers be expanded however, the AER should be mindful of the limitations generators face due to many factors outside their control such as sporadic demand and binding of constraints on transmission while also understanding the difficult and complex cost characteristics facing generators.

Trade Repository

Snowy Hydro welcomes the ESB's note that it *"is not convinced that a trade repository and mandatory reporting of OTC is justified on transparency grounds alone given the expense of establishing and maintaining the repository, as well as the reporting burden on participants."*¹ As previously noted in our submissions to the ESB, listing all qualifying contracts into centralised trade repositories would be expensive to implement and a daily administrative burden on the industry. Mandated trade reporting across the whole industry would only marginally increase transparency but come at a significant cost. The costs and benefits tradeoff would not justify trade reporting as it would become a significant daily administrative burden on the industry.

¹ Energy Security Board, 2019, "Energy Security Board ACCC Retail Electricity Pricing Inquiry Recommendation 41 Consultation Paper, pp3

Options for expanding AER's wholesale market monitoring function

The ESB notes *"whether removing impediments from the AER's information gathering powers would be preferable to establishing a trade repository or whether improvements to information gathering powers complemented by the establishment of a trade repository for reporting of OTC trades would be preferred."*² Snowy Hydro does not believe an OTC trade repository is required for the AER to access the information it requires to effectively undertake its wholesale market monitoring function. The AER should use the vast array of reports and analysis on the range of public information available through data published by Australian Energy Market Operator (AEMO), the Australian Energy Market Commission (AEMC), jurisdictional regulators along with the AFMA survey.

The industry continues to work hard to improve transparency through the recent AFMR. The AFMR survey 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. Accordingly if the data is not sufficient by the ESB or AER we recommend the AFMR survey could be further enhanced to provide the transparency required. We would be willing to work with AFMA to improve the report to the satisfaction of regulators.

OTC trade information contains highly confidential details of the contracting and believe that AFMR are the most appropriate to present this information. Should this information become publicly known it could be damaging to businesses and could reduce liquidity as participants may not proceed with a trade due to the compliance burden of requiring to report it.

Snowy Hydro advocates for transparency and understands the ESB's role in expanding the AER's wholesale market monitoring function however does not believe a trade repository is required. The publicly available information the AER can use is important for good investment and operational decisions and believes that the AER reporting should use existing reports and avoid imposing mandatory reporting/data collection to facilitate the AER's wholesale market performance report.

Linkages between gas and electricity markets

Snowy Hydro understands the strong links between the electricity and gas spot markets however the AER was required to monitor and report on the efficient operation of the electricity wholesale market not the gas spot market. Although we understand the role the AER has across both markets, we do not believe it is appropriate for the monitoring to incorporate wholesale gas matters along with the wholesale electricity market. Despite the linkages between the two markets, there are also significant differences which make comparisons difficult and misleading, these include:

- Overall, gas markets are less competitive than electricity markets given the smaller market scale, and difficulties in sourcing gas and pipeline services in some regions. Gas markets in each region are generally more concentrated than electricity markets.³
- Wholesale gas is traded in two distinct types of markets. Around 90 per cent of gas sales in eastern Australia are struck under confidential bilateral contracts, with the remaining 10 per cent traded in spot markets. This is unlike the electricity market.⁴
- Three separate spot markets for gas operate in eastern Australia. This is in comparison to the one wholesale electricity spot market in the NEM.⁵

AER information powers and function specific

Snowy Hydro understand the considerable task that AER has been assigned in establishing an effective wholesale market monitoring framework. We are however concerned by the ESB question regarding whether

² Energy Security Board, 2019, "Energy Security Board ACCC Retail Electricity Pricing Inquiry Recommendation 41 Consultation Paper, pp8

³ Australian Energy Regulator, 2018, "State of the Energy Market 2018"

⁴ Australian Energy Regulator, 2018, "State of the Energy Market 2018"

⁵ Australian Energy Regulator, 2018, "State of the Energy Market 2018"

the AER should have to identify whether the wholesale electricity market is effectively competitive before it can use its compulsory information gathering powers.

AER's task in analysing the effectiveness of competition and the efficiency of the market is difficult however Snowy Hydro strongly cautions against compelling Participants to divulge confidential data/information which would undermine certainty and confidence in operating in the NEM and hence would deter new investment in the NEM and/or create increased costs for these new investments as investors would incorporate an additional risk premium for investing and operating in an intrusive regulatory environment.

The Australian energy market is unique in both its function and purpose and is result of ongoing National Competition Policy reforms applied across the Australian economy since the early 1990s. Over the past two decades successive federal and state governments have pursued an extensive reform program that dramatically changed the electricity supply model. This reform program included: physical interconnection, structural separation, corporatisation, privatisation, creation of formal physical and financial markets and regulatory frameworks.

Should the AER's powers be expanded to allow information gathering in anticipation of possible competition issues, the AER should be mindful of the limitations generators face due to many factors outside their control such as sporadic demand and binding of constraints on transmission, and hence undertake an assessment period of substantially longer than a single trading interval while also understanding the difficult and complex cost characteristics facing generators. The information provided by market participants in good faith is to assist the AER's market monitoring functions. While every care is taken with compiling the information, it is possible that insignificant errors may be present in the data.

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,

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

Kevin Ly
Head of Wholesale Regulation
Snowy Hydro

