

2 February 2018

Australian Energy Regulator
GPO Box 520
Melbourne, VIC, 3001

Submitted by email to wholesaleperformance@aer.gov.au

Wholesale electricity market performance monitoring

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Statement of approach and 2018 Focus from the Australian Energy Regulator (the AER) on the Wholesale electricity market performance monitoring paper.

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.

Snowy Hydro understand the considerable task that AER has been assigned in establishing an effective wholesale market monitoring framework. We believe that the AER should undertake long term reporting to avoid replicating existing processes such as the AER's current wholesale gas and electricity market reports and AEMO's reports into significant price events. It is important that AER use the large breadth of publicly available information to assess the key relevant markets and whether there is an existing reporting gap. The expected restart of the Australian Financial Markets Association (AFMA) survey of Over The Counter (OTC) electricity derivative turnover is expected to add an additional source of public information for the AER.

The Relevant Markets

Snowy Hydro believes that the AER should focus their wholesale market monitoring on key relevant markets where there is an existing material reporting gap. The interregional settlement residues should not be a focus given:

1. AEMO's strong governance of this market through the Settlement Residue Committee;
2. AEMO's existing quarterly reports after each quarterly auction;
3. The Australian Energy Market Commission (AEMC)'s final rule on trading of settlement residue distribution units noted that the primary market was efficiently operating with the final rule expected to also allow "*market participants to more efficiently manage their hedging risks across regions and therefore more efficiently deliver electricity services to consumers by increasing liquidity in the market for units*". The report confirms that the interregional settlement residues market is competitive.¹

¹ AEMC, 2017, "National Electricity Amendment (Secondary trading of settlement residue distribution units) Rule 2017, pp iii

We believe that focus needs to be on those markets where the most value can be derived from the AER's wholesale market monitoring. The AER does not need to re-assess all the various aspects where there is likely to be already proven competitive market and has been proven by the AEMC or another independent reliable source.

Australian Financial Markets Association (AFMA) survey

Following the AER's concern that the *"availability of public information on derivatives markets is limited, with over-the-counter transactions remaining confidential"*² Snowy Hydro welcomes the restarting of the AFMA survey of Over The Counter (OTC)³ electricity derivative turnover which will improve the quality and availability of this information. This credible survey will allow greater visibility of the electricity trading hedging products and backfill any missing data allowing an extra source of information for public use.

The AFMA survey will add to the vast array of reports and analysis undertaken from the three NEM regulatory institutions including the AER. Snowy Hydro understands that information 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.

The use of public data

The AER's decision to use public data in the first instance for the wholesale market performance reporting and understanding of imposing unnecessary regulatory burden is welcomed by Snowy Hydro. We are however concerned that the AER noted that they can *"compel confidential data where we identify an issue that requires further examination"*⁴. As noted in our previous submission there would be increased cost, substantial administrative burden, and risks if the AER were to impose some form of mandatory reporting/data collection to facilitate the AER's wholesale market performance report.


Snowy Hydro welcomes the AER's proposal to refer to the demand and generation capacity outlook reported by AEMO in its Electricity statement of opportunities for the NEM to understand the supply and demand conditions and the use of AEMO's wind and solar availability during periods of high demand to better understand the market share data through the portfolio fuel mix of various participants.

As Australia's energy system progresses through a structural adjustment towards lower emissions, challenges are arising to balance system security and reliability which are leading to significant reform changes. Snowy Hydro believes an additional layer of mandatory reporting/data collection would be onerous on businesses and add further costs as we work through the numerous reform

² AER, 2017, "Wholesale electricity market performance monitoring – Draft 2018 focus", page 7

³ AEMC, 2017, "Reliability Frameworks Review: Interim Report", 19 December 2019.

⁴ AER, 2017, "Wholesale electricity market performance monitoring – Update and consultation paper", page 8



changes progressively being implemented. Such a requirement would also increase the risk of operating in the competitive market and hence new investors would incorporate a higher risk premium for new entrant generation plant. The AER should properly assess any situation that would warrant collecting confidential data.

Market Conduct

Snowy Hydro is unclear as to the AER's proposed examination to understand the relationship between participant's bidding behaviour and market outcomes following the AEMC's rule change on Bidding in Good Faith. The rule change was implemented to stop the conduct of concern and to make it easier for the AER to take enforcement action in respect of deliberately late rebidding. We are concerned that the AER could be left examining issues which the Bidding in Good Faith rule was implemented to prevent.

The AER has proposed to assess *"the extent to which participants are rebidding capacity from low to high prices close to dispatch, which can limit competitive responses from other generators"*⁵ which is not dissimilar to the AEMC's Bidding in Good Faith rule which has additional requirements to record information for variations to offers made close to dispatch.⁶ In regards to the AER proposal to assess *"the extent of any physical withholding of capacity in the market"* the Bidding in Good Faith requires *"any variations to offers be made as soon as practicable after a change in material circumstances and conditions"*⁸ to avoid any such issues.

The AEMC's requirements were put in place so as to lead to more efficient wholesale price outcomes in the short term, and create investment signals that better reflect underlying conditions of supply and demand, in the long term interests of consumers. The AER's wholesale monitoring report would be replicating this work.

Temporal Dimension

Snowy Hydro believes that the AER should focus their monitoring reporting on the long term rather than biennial reporting as it will replicate existing processes currently in place. The AER presently monitors wholesale gas and electricity markets in their market reports which look at market activity and extreme prices⁹.

In addition AEMO frequently publishes reports on significant price events which supports market transparency which looks at unusual pricing outcomes in the NEM and providing information on the

⁵ AER, 2017, "Wholesale electricity market performance monitoring Draft statement of approach" December 2017, pp 13

⁶ AEMC, 2017, "National Electricity Amendment (Bidding in Good Faith) Rule 2015", pp i

⁷ AER, 2017, "Wholesale electricity market performance monitoring Draft statement of approach" December 2017, pp 13

⁸ AEMC, 2017, "National Electricity Amendment (Bidding in Good Faith) Rule 2015", pp i

⁹ AER Market Performance << <https://www.aer.gov.au/wholesale-markets/market-performance> >>

factors that contributed to these outcomes¹⁰. Snowy Hydro is therefore unclear of the value of undertaking an AER biennial report.

Snowy Hydro appreciates the opportunity to respond to the Statement of approach and 2018 Focus. 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 horizontal line underneath.

Kevin Ly
Head of Wholesale Regulation
Snowy Hydro

¹⁰AEMO Pricing Events reports <<
<https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Market-notice-and-events/Pricing-event-reports> >>