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Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Electronic Submission

### **Wholesale electricity market performance monitoring 2022 Focus paper**

Snowy Hydro welcomes the opportunity to make this submission to the Australian Energy Regulator's (AER) Wholesale electricity market performance monitoring 2022 Focus paper (Focus Paper).

The AER's consultation with industry at the early stages of the report are critical in assessing the performance of Australia's wholesale electricity markets. Snowy Hydro encourages the AER to continue this consultative approach when conducting its analysis and to continue to engage with market participants so as to obtain the best information prior to any report.

Our comments on the focus paper are set out below. They relate to the ongoing market transformation, introduction of five minute settlement, barriers to entry and contract market dynamics.

#### **Ongoing market transformation**

Snowy Hydro agrees with the AER that transformation of the electricity sector is an important influence on the performance of the NEM. The AER should assess the unprecedented level of change which has led to policy makers commissioning a myriad of inquiries, reviews and rule changes. This has led to an uncertain regulatory environment which has in turn weakened investor confidence in the NEM's regulatory structure.

It is important that the AER take into consideration the cumulative impact of these changes when assessing the market design. Wholesale electricity market rules have a material impact on the efficiency of the electricity sector, given that market participants make both long term investment and short term operational decisions. The myriad of proposed and recently implemented changes to the wholesale market can send conflicting market signals, reducing market efficiency and increasing costs for consumers. The risks associated with increased market intervention include:

- unforeseen influences to participant incentives;
- conflicting market signals causing investment uncertainty;
- duplication of payments by consumers; and
- unnecessary costs to the system and market participants .

These risks manifest in less than efficient levels of investment, which will place upward pressure on electricity costs. Policy design provides a pathway towards increasing efficiency in the NEM but requires a coordinated and deliberate analysis and design. Market reforms should reinforce market signals and incentives for participants, allowing participants to prudently manage their own risk without undue regulatory intervention.

#### **Barriers to entry**

There are a number of pathways for market entry for new and prospective participants. Wholesale brokers facilitate contracting and coverage negotiations between (new entrant) buyers and sellers, and there is an increasing role for innovative mechanisms such as the renewable energy hub and the wholesale demand response mechanism. The development of the PPA market has also introduced much-needed competition in the market for the supply of electricity, reducing the

pricing power of traditional suppliers of bulk energy in the NEM and ultimately reducing the cost of electricity for consumers. The AER should consider all these factors in its assessment.

In examining potential barriers to entry, the AER should take account of the Australian Energy Market Commission's (AEMC) recent rule change, "*Integrating energy storage systems into the NEM*". This decision, which confirms the exposure of storage assets to TUOS, will have a significant anti-competitive effect, by prejudicing storage assets against traditional forms of NEM generation. The NEM is facing an urgent challenge in the need to increase shallow and deep storage capability to support decarbonisation. Unfortunately, the AEMC's decision has created investment uncertainty and will jeopardise storage investment. This is a major policy change, amounting to a tax on infrastructure critical to achieving a renewable future. The AER should acknowledge the damaging impact of this rule change and its creation of a *de facto* barrier to entry.

## **Introduction of Five Minute Settlement**

It is important that the AER assess both the positive and negative impacts of five minute settlement change in the year following its implementation. The NEM's gas fleet of almost 10,000MW has experienced difficulty synchronizing fast enough to respond to short term, transitory price spikes. This means dispatchable generators carry more risk, which in turn means a greater risk premium in dispatch and contract offers, and less availability of contract cover.

The AEMC claimed that the introduction of five minute settlement would impose only modest costs and result in significant net benefits. While the benefits have been considered in previous AER quarterly reports it is important that the costs incurred overtime are also assessed.

## **Contract Market Dynamics**

Snowy Hydro has worked with AFMA on surveys of over the counter (OTC) contract turnover. These surveys increase visibility of electricity trading hedging products and will help backfill any missing data, allowing an extra source of information for public use. The AFMA surveys add to the voluminous quantity of reports and analysis undertaken by the three NEM regulatory institutions, including the AER. Snowy Hydro cautions against further increasing the regulatory burden on participants in the energy market.

## **About the Snowy Hydro Group**

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. Collectively, they retail gas and electricity in South Australia, Victoria, New South Wales, Queensland and the ACT to over 1 million customers.

Snowy Hydro appreciates the opportunity to respond to the Wholesale electricity market performance monitoring 2022 Focus paper,

Yours sincerely,



Leigh Creswell

Snowy Hydro Limited

