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Australian Energy Market Commission (AEMC)
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted by email to aemc@aemc.gov.au

Enhancing reserve information, Draft rule determination

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Australian Energy Market Commission (the Commission) Enhancing reserve information Draft rule determination.

Snowy Hydro supports continuous improvement in forecasting accuracy which is key to accommodate for the continued transition and diversification of generation, load, and network requirements. The development of a forward looking arrangement that allows the NEM to balance its energy security needs with potential energy limits is critical. It is for this reason, we support the Commission's decision to:

- not implement an operating reserve market, following analysis of the issues, stakeholder feedback to the directions paper and recent reforms; and
- improve transparency to better assess when reserves are needed during the transition

The Commission's technology neutral approach is sensible. The publishing of energy availability in the operational timeframe should include batteries, hydro, gas and coal generation.

We understand that increasing transparency of the energy constraints of all plant types in the relevant operational timeframe may provide some market benefits. It is important to note, however, that all the information is mostly already provided to AEMO and does not necessarily need to be publicly available in the currently proposed form. Furthermore, there are inherent risks to publicly disclosing energy reserves, even in an aggregated form.

Market participants have noted the trade-offs of providing greater supply-side information. The Draft rule determination highlights concerns from one participant that there "may be the potential for this information to be used by other bidders with unintended outcomes (i.e.gaming behaviour)". It is for this reason Snowy Hydro believes the Commission strongly consider that there are commercial sensitivities with publishing energy availability which may not be mitigated through data aggregation.

Specifically, disclosing energy reserves can create unintended consequences.. Generators typically pre-sell most of their output ahead of time through hedging contracts. These hedges are beneficial for both generators and load-bearing entities, as they stabilise cash flows and reduce market risk. However fuel-limited generators must manage the risk that they could exhaust their fuel reserves. If other market participants are able to infer a generator's contract positions and level of reserves, they could engage in strategies designed to exhaust that generator's reserves, rendering the generator unable to defend its contract position. Such strategies are a form of market manipulation, as they utilise trading behaviour designed to create an artificial price; that is, one which does not reflect the genuine forces of supply and demand. While all assets with energy constraints face this risk, it is particularly pronounced for hydro, which tends to be highly fuel-limited in relation to generating capacity. Generators exposed to this risk would be forced to reduce the level of contracting cover offered to the market. To avoid certain technologies facing the potential risk of anti-competitive behaviour, the Commission should modify the proposed rules so that if any NEM region has fewer than 3 market participants with energy-constrained assets then the aggregated data should not be released.

More generally, increased information about competitors' fuel reserves may inform participants of their competitors' operational limits, and could be used to signal or predict particular patterns of bidding behaviour, which could lead to anti-competitive or inefficient outcomes. As noted above, in regions where there are a few market participants present, information on energy constraints

could potentially infer the state of charge levels for other plant in the region and use this information to send signals on when to charge and deploy energy

Not all energy reserves are able to be calculated with the same degree of confidence. The Commission needs to carefully consider that there is not a one size fits all for all technologies. Energy storage limitations for hydro assets are different from battery energy storage systems. For example, hydrological constraints sometimes restrict daily or weekly generation to a lower level than would be allowed by total hydro storage. These constraints are influenced by a range of factors, many of which are external, including volatile weather patterns and downstream airspace requirements. As a result Snowy Hydro has gone to great lengths to inform AEMO of the factors that can change the energy available to the system so this is understood by the market operator.

It is therefore challenging to accurately convey the level of reserves, particularly in more granular timescales. It should be noted that this will not be the same experience for other technology types and it is our concern that the provision of energy reserve information in real-time operations could create substantial administrative burden for hydropower operators and introduce unnecessary regulatory risk.

Demand-Side Requirements

The Commission assessment of enhanced information continues to focus on energy limited plant and makes no mention of inadequate transparency requirements for non-scheduled customers, who are not required to notify the market of their intentions. Sudden changes in demand, even for scheduled load, can destabilise the grid, as occurs when aluminium potlines are turned off in response to market volatility. AEMO will need to be more active in the market to accommodate inflexible generation and/or unpredictable demand response over which it has reduced visibility. Individual aggregators or larger customers who want to participate in wholesale and energy services markets are relatively small individually but their cumulative impact is significant. The proposal is risking not solving the problem posed by AEMO, but rather seeking more information from (the already transparent) generators.

The Commission's proposal creates a two-tiered framework that benefits some market participants at the expense of others. More specifically, there is an asymmetry of regulatory obligations on scheduled generators compared to non-scheduled price responsive resources. This will have a detrimental impact on investment decisions and market outcomes over the longer term however more work continues to be only focused on scheduled generators.

Operating Reserves

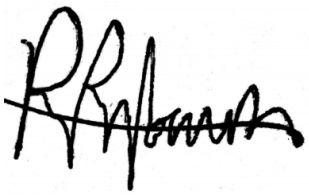
Snowy Hydro supports the Commission's decision to not proceed with an operating reserve. Investment signals are being addressed through work on market settings, which have recently been proposed to change, and government schemes. An operating reserve market would not promote investment and we believe it could even dilute long-term signals that are helping to drive the development of flexible plant in the NEM.

About Snowy Hydro

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 appreciates the opportunity to respond to the Commission's Enhancing reserve information, Draft rule determination. Any questions about this submission should be addressed to panos.priftakis@snowyhydro.com.au.

Yours sincerely,



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