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Australian Energy Market Commission
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Sydney South NSW 1235

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Short Term Forward Market Draft rule determination

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Draft rule determination from the Australian Energy Market Commission (the Commission) on the Short Term Forward Market.

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 welcomes the decision by the Commission to not make a draft rule to introduce a voluntary market for short term financial derivatives. We note that after consultation with the three participant groups AEMO identified as the main beneficiaries of the rule change, the Commission found all three had little to no demand for the Short Term Market mechanism. Existing contract market arrangements allow any participant to manage spot exposure to reasonably short timeframes, however most market participants currently prefer to manage their price risk on a longer term basis. There are products such as power purchase agreements, proxy revenue swaps and longer term solar and wind firming products which the Commission notes "*were more attractive as they further reduced investors' exposure to risk and do not require an active trading desk*".¹ Additionally any participant who has a demand for shorter dated contracts is able to negotiate them either directly or via wholesale brokers, with short term prices frequently quoted.

Current NEM and improvements

There are not sufficient issues with the current market such that the introduction of a voluntary short term forward market is required. Market Participants can already hedge pricing risk using financial derivatives under the current frameworks and are able to introduce demand for short term products into those existing frameworks - for example propose a new futures contract, or develop standard Over the Counter (OTC) contracts. For this reason the voluntary STFM would make immaterial differences to the status quo.

The Commission has noted improvements in the market and current efficiency processes in the market that reaffirm why a voluntary short term forward market is not needed:

¹ AEMC, Short Term Forward Market, Draft rule determination, 12 December 2019, ppii.

- *“Short term portfolio optimisation can and does takes place through trading on the Australian Securities Exchange (ASX). If participants want to buy or sell hedging in the short term, they will trade in and out of a cap contract for the current quarter.*
- *Market-led processes for establishing new financial products appear to be working. Typically, before an exchange lists a new product, there is evidence of that product trading more frequently on the OTC market.*
- *In the Market making arrangements in the NEM rule change, the Commission recommended making improvements to transparency of the wholesale financial contract market, which could be addressed through improvements to the derivatives survey currently conducted by the Australian Financial Markets Association (AFMA) or alternative mechanisms. Improvements may enhance financial contract price discovery for participants, and therefore increase participant confidence in agreeing to contract terms.”²*

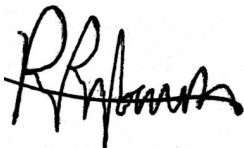
Improving the reliability and security of the system

The Commission notes that *“even if a STFM does not incentivise additional generation, it may still be useful in assisting AEMO to manage system security.”³* The Commission suggests that AEMO would need full visibility of contracts and the generation underwriting them. Snowy Hydro is concerned by this suggestion, as it implies that AEMO would need confidential contract information to decide if a generator intends to run or not. Through the Short Term Projected Assessment of System Adequacy (PASA) and pre-dispatch, AEMO is made aware of the intentions of generator participants. AEMO should rely on the stated intentions of participants rather than try to infer commercial drivers from a set of contract data. It is the participant intentions with regard to the NEM mechanisms such as the PASA and pre-dispatch that provide AEMO with the insight that they require to understand and assess reliability.

As work on other design features is being undertaken by the market bodies and the Energy Security Board (ESB) in its post 2025 market design project, AEMO should continue to explore potential enhancements to current forecasting practices and processes before consideration is given to significant market redesigns. Improvements to forecasting for greater levels of information from demand-side load need to be properly assessed.

Snowy Hydro appreciates the opportunity to respond to the Draft rule determination and any questions about this submission should be addressed to me by e-mail to panos.priftakis@snowyhydro.com.au.

Yours sincerely,



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² AEMC, Short Term Forward Market, Draft rule determination, 12 December 2019

³ AEMC, Short Term Forward Market, Draft rule determination, 12 December 2019, pp52