

19 December 2018

Australian Competition and Consumer Commission
23 Marcus Clarke Street,
Canberra ACT 2601
GPO Box 3131

Submitted electronically: ElectricityMonitoring@acc.gov.au

ACCC monitoring of electricity supply in the National Electricity Market Discussion paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Discussion Paper from the Australian Competition and Consumer Commission (ACCC) on the monitoring of electricity supply in the National Electricity Market (NEM).

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.

There is currently no significant evidence that the NEM is failing to deliver sound outcomes. In the NEM the reliability has been essentially met while the price spikes have been an intended feature of the energy-only market design. Although electricity markets may have some features that are not common to many commodity markets, in practice the NEM operates as any other market within the economy but with generally greater transparency.

A key feature of a competitive market is the threat of new entry. If there are any market participants exercising market power, by sustainably raising price above long-run marginal cost, they will face competition from new entrants provided there are no significant barriers to entry. The key barriers to generator entry in the NEM relate to the need to incur high fixed costs that become sunk after entry and the lead-time for investment with the the history of generation investment in the NEM indicating that the barriers to entry are relatively low.

Snowy Hydro understand the considerable task that the ACCC have been assigned to monitor the electricity market. We do however suggest that the ACCC consider the following in their report:

- ACCC should only use and rely on the range of public information available through data published by the Australian Energy Regulator (AER), Australian Energy Market Operator (AEMO), the Australian Energy Market Commission (AEMC) and jurisdictional regulators.
- Limit duplication to the extent possible and to leverage work in other areas to the extent possible.
- Consistency with other publicly available electricity reports.
- Caution against complying Participants to divulge confidential data/information which would undermine certainty and confidence in operating in the NEM.
- Caution against using the current Energy Security Board (ESB) Strategic Energy Plan as the metrics hold significant concerns for industry with their focus on preferred outcomes that do not properly consider broader market cycles.

- Using a viable source in the Australian Financial Markets Association (AFMA) annual surveys rather than undertaking other confidential data reporting to monitor contract market liquidity.

Publicly available information and duplication

Snowy Hydro believes the ACCC should only use and rely on the range of public information available through data published by AEMO, the AEMC and jurisdictional regulators. The monitoring report proposed by the ACCC, as noted in the discussion paper, is an overlap to the work of the AER, AEMO, and ESB on wholesale prices and the market. We therefore welcome that *“the ACCC intends to work with the AER to limit duplication to the extent possible and to leverage the AER’s work in this area”*¹ and to the extent possible, work with other agencies, such as the AEMC, where possible, to harness their work in analysing the wholesale market.

There is an array of reports and analysis undertaken from the three NEM regulatory institutions with these reports being, but not limited to:

- AEMO: Market event reports, market incident reports, Settlement Residue Auction reports, The planning reports such as the ESOO and the NTNDP which has commentary on gaps in network ancillary services.
- AEMC: Adhoc reports such as the *“Integration of energy and emissions reduction policy”* which provided analysis and commentary on the likely effect on emissions reduction policy on the performance of the wholesale electricity markets.
- AER: Electricity and gas reports and various pricing reports, the annual state of the energy market report and the wholesale electricity market performance monitoring report.

There should be consistency with other publicly available electricity reports although any NEM energy market only research the ACCC undertakes needs to be restricted to the NEM as it is a unique market and comparison abroad should be avoided.

Confidential data

The ACCC noted that it expects to have to undertake some data collection of its own either where other agencies do not collect and report on certain aspects of the market or where there are legal or practical issues with the ACCC drawing on their data. Snowy Hydro believes that the ACCC should only use publicly available data at first instance as noted above. The breadth and depth of this public data is sufficiently wide and deep to allow the ACCC to analyse and make an informed assessment of the state of the NEM.

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 will be onerous on businesses and add further costs as we work through the numerous reform changes progressively being implemented. We would therefore strongly caution against compelling Participants to divulge confidential data/information which would undermine certainty and confidence in operating in the NEM.

ESB Strategic Energy Plan

Snowy Hydro understands there is a degree of overlap between the measures being considered by the ESB Strategic Energy Plan and the areas the ACCC is likely to monitor.

¹ ACCC monitoring of electricity supply in the National Electricity Market – Discussion Paper – November 2018

ESB is currently undertaking a public consultation process for developing metrics to assess the outcomes and objectives of the Strategic Energy Plan with industry responding with significant concerns regarding these metrics. The Australian Energy Council (AEC) recently noted that it did not support the ESB's draft metrics, noting that the proposed metrics²:

- pose a significant risk to industry and consumers
- were inappropriate and with their focus on preferred outcomes do not properly consider broader market cycles.
- If the metrics are not well structured, then each can inadvertently affect the others or have flow-on costs. For example, affordability relies on the markets evolving to reflect the technical needs of the system for greatest efficiency³.

AEC noted that the objective proposed is that markets operate safely, securely and efficiently, under the full range of operating conditions, with minimal intervention. Snowy Hydro agrees with those concerns and believes it is important that the ESB and the ACCC, before using the metrics, consider the concerns and work closely with industry to determine appropriate metrics which will be reflective of how markets works making them meaningful for both industry and consumers.

Monitor contract market liquidity

The ACCC notes the intention to monitor contract market liquidity, including assessing whether vertically integrated electricity suppliers are restricting competition and new entry. Snowy Hydro suggests that the ACCC use a viable source in the Australian Financial Markets Association (AFMA) annual surveys rather than undertaking other confidential data reporting.

The Australian Financial Markets Report (AFMR)⁴ covers electricity derivative volumes that were traded 'OTC' and on the ASX. The AFMR report provides evidence that Australia's financial markets are highly competitive, with a good spread of participants from both Australia and overseas. The reports shows that innovation by participants in our financial markets is helping to more efficiently meet the investment needs of superannuation funds, the funding needs of business and the capital requirements of infrastructure projects.

AFMA and Market Participants have had discussions with the ESB and the AEMC on suggestions they may have to improve the quality of usefulness of this AFMA report. The current AFMR survey shows that the number of trades in the NEM has continued to increase (Figure 1), OTC turnover in 2016-17 was 23 per cent of total market turnover with aggregate turnover in all products (both OTC and ASX) in 2016-2017 greater than the NEM System Demand by a factor of 2.8. There are numerous power purchase agreements, options and other bespoke contracts between counterparties which can be used to match supply to demand, and mitigate physical and/or financial risk in the NEM which are not mentioned in the consultation paper⁵.

² Australian Energy Council submission, "ESB Proposed Metrics"

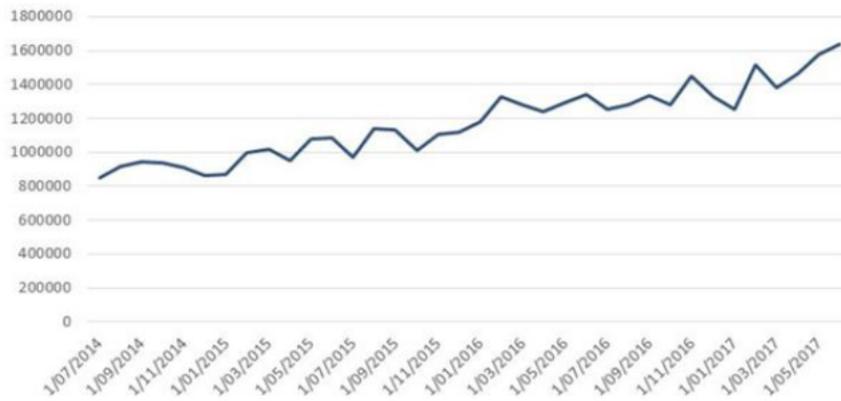
³ Australian Energy Council submission, "ESB Proposed Metrics"

⁴ AFMA, 2018, "2017 Australian Financial Markets Report", <<
<https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>

⁵ AFMA, 2018, "2017 Australian Financial Markets Report", <<
<https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>



Figure 1: Number of trades, daily average, ASX & Chi-X⁶



Snowy Hydro appreciates the opportunity to respond to the Discussion Paper. Any questions about this submission should be addressed to [REDACTED], Regulation Manager, by e-mail to [REDACTED].

Yours sincerely,

[REDACTED]

[REDACTED]
Head of Wholesale Regulation
Snowy Hydro

⁶ AFMA, 2018, "2017 Australian Financial Markets Report", <<
<https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf>>>