11 December 2018

Department for Energy and Mining
Government of South Australia
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Submitted electronically: RRO@sa.gov.au

Consultation on the draft National Electricity (South Australia) (Ministerial Reliability Instrument) Amendment Bill 2019

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation from the Department for Energy and Mining on the draft National Electricity (South Australia) (Ministerial Reliability Instrument) Amendment Bill 2019

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 believes the existing market design can be relied upon to support reliability in the long-term with the NEM not expected to confront any immediate reliability crisis. The high level reliability guarantee design was robustly consulted and should remain the default unless there are demonstrably more efficient options. It is for that reason that we do not support revisions to the Retailer Reliability Obligation (RRO) which include additional powers to be granted to jurisdictional Ministers. The additional powers, which would be a significant market distortion, will:

- cause the uncertainty for the sector.
- create significant regulatory risk for retail businesses, an outworking of which may be inefficient levels of contracting and additional costs for consumers.
- lead to retailers inefficiently investing and contracting to address risks which may never materialise.
- retailers not having sufficient time to procure the additional capacity needed.

The most recent AEMO South Australian Electricity Report[1] shows that Reliability Standard is likely to be met for the foreseeable future and, should plans such as the acceleration of projects identified in the Integrated System Plan and the 2,000MW Snowy 2.0 project proceed there will be no reliability shortfall for the term of AEMO's forecast.

Snowy Hydro supports retaining the high level design with a trigger period of 3 years for retailers to meet a forecast reliability gap which will allow for more current and complete information. If retailers do not meet the requirement by the compliance date, the last resort function will be triggered by Australian Energy Market Operator (AEMO) 1 year before the forecasted reliability gap.

[1] Australian Energy Market Operator, South Australian Electricity Report, November 2018

Ministerial powers

Snowy Hydro does not support the South Australian Minister having the ability to make a T-3 reliability instrument should it appear to the Minister, on reasonable grounds, that there is a real risk that for a specified period supply of electricity to all or part of the South Australian community may be disrupted. Increased Ministerial powers will lead to multiple interventions that will affect the NEM's efficient operation. Increasing interventions in turn will lead to additional cost and market distortions which raise uncertainty for all current and future investments.

This proposed approach undermines the structure of the operation of the NEM and the confidence in the market. The NEM has largely served us well and consistently met its objective of reliable power even through the significant transformation and policy instability over time. Diminishing and duplicating the roles of the Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER), and Australian Energy Market Operator (AEMO) is damaging to the efficient operation of energy markets.

The National Electricity Law (NEL), National Gas Law (NGL), and the National Energy Retail Law (NERL) convey strict obligations with clear responsibilities on the AEMC, AER, and AEMO to perform clear functions that support energy markets in line with the NEO, NGO, and national energy retail objective (NERO). Allowing the Minister to make decisions on the reliability gap increases the risk of confusion, loss of trust by the industry, and ultimately governance failure. The AER should have a role in approving decisions impacting the reliability of the NEM. The AER support the effective operation of the market by encouraging parties to provide information that is required for statutory bodies to exercise their functions. Changes to this framework in the RRO would reduce the transparency and predictability of decision making undermining that confidence. The reliability standard currently requires that there be sufficient generation and transmission interconnection such that 99.998% of annual demand for electricity is expected to be supplied .

Specifically the greater interconnection between states improves energy security without comprising system security and reliability. In a more interconnected NEM, it is inefficient that possible future challenges facing the NEM need be managed by a Minister at a jurisdictional level.

Snowy Hydro contributed to the public consultation in August 2018 on policy options related to the proposed National Energy Guarantee's reliability requirement, as noted by the Department for Energy and Mining, and opposed the inclusion of Ministerial powers in the RRO. From the consultation it was clearly noted by numerous market participants that the Ministerial powers would cause:

- cause the uncertainty for the sector.
- create significant regulatory risk for retail businesses, an outworking of which may be inefficient levels of contracting and additional costs for consumers.
- that if the trigger can be pulled at any time at the command of a Minister, it may lead to retailers inefficiently investing and contracting to address risks which may never materialise.

The NEM has largely served us well and consistently met its objective of reliable power even through the significant transformation and policy instability which has occurred over time. There is currently no forecast reliability gap which would require increasing the powers to a Minister.

Reliability

The Reliability Panel (Panel), which is established under the National Electricity Law and a body that forms part of the AEMC's institutional arrangements is comprised of ten senior members who represent a range of participants in the NEM including consumers responsible for monitoring, reviewing, reporting, and giving advice on the safety, security, reliability of the national electricity system[2]. Snowy Hydro is unclear how jurisdictional Ministers would be in a better position than the Reliability Panel or AEMO to make decision on reliability of the jurisdiction considering the interconnection of the NEM.

Reliability in the NEM is largely driven through market participants responding to financial incentives and information provided about the need for resources. The NEM is an energy-only market. Under this structure, peaking generators such as Snowy Hydro, and others, regularly invest large amounts of capital to ensure they are available during times of scarcity. They do everything possible, at their own cost and own risk, to ensure they are ready to generate during the relatively few periods when demand cannot be met by other types of market generation. It is therefore important that there are robust market structures in place and accurate information available to underpin investment, retirement and operational decisions.

Snowy Hydro believes the existing market design and contracting arrangements in the NEM remain effective and will continue to deliver new investment without compromising reliability. We therefore do not support the South Australian Ministerial powers which would undermine the RRO. If left to operate as intended the RRO will ensure enough of the right resources will be available to meet demand in the market particularly in regions with limited access to dispatchable generation. If the right investment does not come forward to address forecast supply shortfalls, this would trigger an obligation on electricity retailers to demonstrate they can meet their share of peak demand.

AEMC's analysis for the Reliability Panel in late 2017 and early 2018 shows that the reliability standard was met in the NEM for all years following 2008/2009 and is projected to be met in all regions in the near to medium term[3]. With the Department for Energy and Mining also noting that forecasts in AEMO's recent Electricity Statement of Opportunities reports have not forecast beaches of the reliability standard in South Australia within a 3-year period.

The Department for Energy and Mining however does highlights concerns that in 2017 ESOO forecast a breach of the reliability standard for the 2017-18 summer is expected in less than 1 year out. The AEMC however recently noted that information released to the market about future breaches to the reliability standard should not necessarily be cause for concern. It notes that the Electricity Statement of Opportunities published by AEMO annually, regularly forecasts breaches in the reliability standard, which, in the fullness of time do not generally materialise, either because the market responds and invests or demand forecast changes[4].

The EY was commissioned by the Reliability Panel to forecast the likely expected unserved energy to 2024 based on the current reliability standard and settings. The results of the EY forecasts highlight that for the "base case" scenario there is no Reliability Issue with all regions well below the 0.002 per cent standard. The findings indicated that the level of unserved energy forecast by the base scenario model under these sensitivities remains well below the reliability standard[5].

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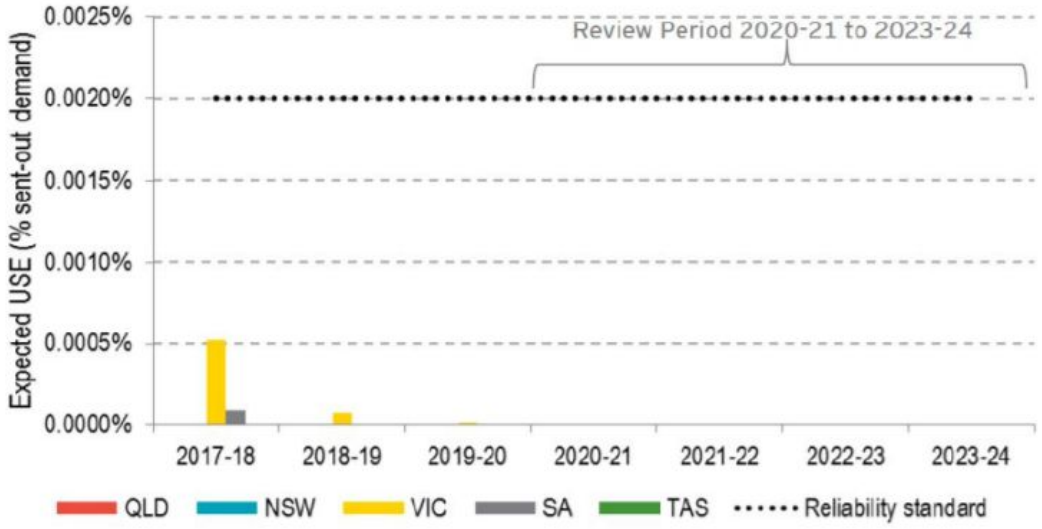
[2] https://www.aemc.gov.au/about-us/reliability-panel

[3] Catalysts for reform in the energy market - no holding back: Dr Brian Spalding, NSW Annual Electric Energy Conference

[4] Catalysts for reform in the energy market - no holding back: Dr Brian Spalding, NSW Annual Electric Energy Conference

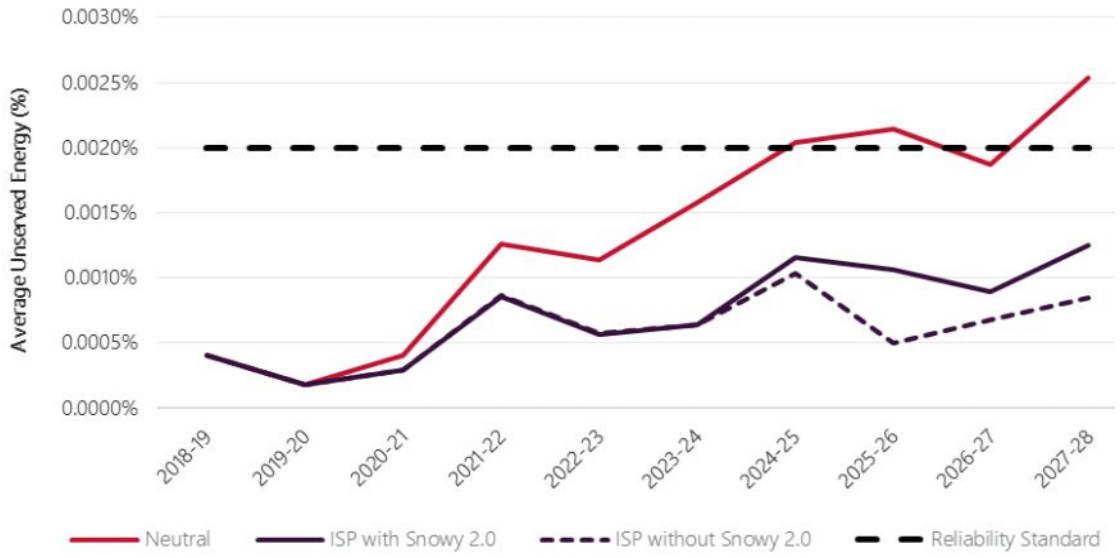
[5] EY, 2018, "Reliability Standard and Settings Review 2018 – Modelling Report - The Reliability Panel"

Figure 1: Expected unserved energy outcomes for the base scenario from 2017/18 to 2023/24[6]



In addition to this, the most recent AEMO's South Australian Electricity Report shows that the Reliability Standard is likely to be met for the foreseeable future and, should plans such as the acceleration of projects identified in the Integrated System Plan and the 2,000MW Snowy 2.0 project proceed there will be no reliability shortfall for the term of AEMO's forecast. This is shown in Figure 2 of the South Australian Electricity Report.[7] The chart shows that even in the Neutral ESOO scenario, the level of USE is above the reliability standard by 2024-25. This scenario is based on no additional investment in generation or transmission beyond what is classified by AEMO as committed. The ESOO also modelled the implementation of the generation and transmission development projected in the Neutral ISP plans (with and without deep storage). Under both these plans, the level of USE remains within the reliability standard in South Australia over the 10-year modelling horizon.

Figure 2: Forecast USE outcomes, South Australia, ESOO vs ISP development plans[8]



[6] EY, 2018, "Reliability Standard and Settings Review 2018 – Modelling Report - The Reliability Panel"
[7] Australian Energy Market Operator, *South Australian Electricity Report*, November 2018
[8] Australian Energy Market Operator, *South Australian Electricity Report*, November 2018

In addition under the ISP development plans, the commissioning of a new interconnector between New South Wales and South Australia reduces reliance on gas powered generation. This reliance on South Australian gas powered generation capacity is replaced in the ISP plans as shown in Table 14

Table 1: ISP Developments in South Australia[9]

Source	Capacity (MW)	ISP Plan
Large-scale storage	649	Without Snowy 2.0
	233	With Snowy 2.0
Additional wind and solar generation in South Australia	975	Without Snowy 2.0
	230	With Snowy 2.0
Additional interconnection with New South Wales	750	Both development plans
Additional interconnection with Victoria[A]	100	Both development plans

A. Due to the transmission works associated with a new South Australia to New South Wales interconnector.

On this basis, Snowy Hydro does not find the case for additional powers to be granted to the Minister to be proven.

Snowy Hydro appreciates the opportunity to respond to the Consultation. Any questions about this submission should be addressed to Panos Priftakis, Regulation Manager, by e-mail to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

Kevin Ly
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Snowy Hydro

[9] Australian Energy Market Operator, *South Australian Electricity Report*, November 2018