

6th February 2015

Mr Ben Skinner
Australian Energy Market Operator
Level 22, 530 Collins St
Melbourne, VIC 3000

Submission lodged to: OFAConsultation@aemo.com.au

Dear Ben

Optional Firm Access: AEMO Draft Report

Snowy Hydro Limited appreciates the opportunity to make a submission to this Draft Report. Our submission is prefaced by the view that the vast majority of Market Participants including Snowy Hydro does not support the continued development of the Optional Firm Access (OFA) model which continues to add increasing layers of complexity and as a consequence no-one fully understands how it would practically work, has no relevance in a low demand and high oversupply environment, and increases centralisation of decision making.

We support AEMO's conclusions not to prepare a stage 1 Rule change on the findings that:

- AEMO specifying a "stage 1" independently of the AEMC is impractical; and
- The benefits directly attributable to access settlement are unclear and hence a rule change to implement access settlement alone is unlikely to meet the NEM objective.

Snowy Hydro supports retaining the status quo transmission framework arrangements which have been performing well to date and there is no material evidence to suggest that these arrangements won't continue to work in the future.

Snowy Hydro has always questioned the rationale for why some stakeholders consider problems in the existing transmission frameworks are material and worthy of fundamental market re-design.

The "major problems" in the existing transmission frameworks were never actually major. We believe that the current market design recognised competing trade-offs of contract carriage versus common carriage (open access), regional pricing versus nodal pricing, illiquid versus liquid contract markets, and setting up arrangements for the regulation of monopolies to ensure efficient transmission investment in a competitive wholesale market.

While we recognise the NEM design is not perfect, it is a sufficiently workable set of arrangements which recognise the competing trade-offs in all aspects of the Spot and Contract markets and the regulatory arrangements for transmission. Our submission to the AEMC OFA note on the merits of the OFA outlines why the Regulatory Test for Transmission (RIT-T) is already ensuring a high level of co-optimisation between generation and transmission investment.

In regard to disorderly bidding and its impact on the efficiency of NEM dispatch, we have shown in other submissions that transmission outages are the root cause of market volatility. Previous and numerous studies have concluded that the resource cost of all forms of disorderly bidding is immaterial, and in any event the OFA proposal may change incentives for generators to bid disorderly, but not necessarily reduce those incentives or the resource cost in total.

AEMO's modelling on Access settlement has shown that at least five other major factors influence dispatch to which Access settlement has no influence to change incentives. In keeping with our view that there are necessary competing trade-offs in the current NEM design, any questionable improvement in dispatch would be negligible compared to the adverse impact on the hedge markets by introducing basis pricing risk.

AEMO considers that there are opportunities to improve the efficiency of NEM dispatch through "other reforms". While this objective is commendable we are concern with the language used in the Draft Report that "reform" is required instead of "incremental" change to improve an existing set of workable arrangements.

The Draft Report mentions potentially assessing the replacement of measured inputs into the dispatch engine with state estimated values to smooth out measurement noise. If AEMO were to pursue this initiative, Market Participants would expect robust consultation to ensure any proposed alternative set of arrangement do not have any unintended consequences.

Finally with the Settlement Residue Auction (SRA) transition, Snowy Hydro cautions against the cancellation of SRA units which are primarily purchased for hedging purposes. We caution against shortening the forward sale of SRA units in anticipation of the introduction of the OFA. Both of these actions would have the effect of reducing the confidence of using these SRA units as sustainable hedging instruments to manage risk. As a consequence the SRA proceeds from the sale of these instruments would be reduced to reflect this risk and Participants would be forced to hedge their exposure using other financial products. The end effect would be an increase in costs for end consumers.

Snowy Hydro appreciates the opportunity to comment on the AEMO Draft Report. I can be contacted on (02) 9278 1862 if you would like to discuss any issue associated with this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Ly', with a stylized flourish underneath.

Kevin Ly
Manager, Market Development & Strategy