

27 April 2018

Gas Market Reform Group  
c/o Australian Energy Market Commission  
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Submitted by email to [enquiries@gmrg.coagenergycouncil.gov.au](mailto:enquiries@gmrg.coagenergycouncil.gov.au)

### **Capacity Trading Reform Package: Draft legal and regulatory framework – Consultation Paper**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation Paper from the Gas Market Reform Group (GMRG) on the Capacity Trading Reform Package: Draft legal and regulatory framework.

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 supports the capacity trading reform package that is expected to increase liquidity in the capacity trading markets as the linkage between the gas and electricity markets continue to grow and the importance of gas-fired generation is increased as more variable renewable energy penetration enters the NEM. At a high level we believe the direction of the day-ahead auction, together with the other reforms in this area, will have the potential to enhance gas users' access to more efficiently priced transportation capacity and improve the ability of market participants to optimise trading positions.

For the day-ahead auction, the contract path specification we support is a hybrid approach which uses a hybrid point-to-point and zonal model and allows for a more efficient allocation of capacity. In addition we welcome the intent of the grandfathered rights which will provide gas-fired generators some additional time to transition to the new arrangements to minimise any potential impact on the NEM.

#### **Contract path specification**

Snowy Hydro believes the hybrid point-to-point and zonal model is the preferred form of contract path. The point-to-point approach alone would not provide shippers with a strong incentive to release capacity ahead of the auction as other shippers will be unable to utilise this capacity as it is released from a single user point while the pure zonal approach could mean that winning bidders

may not gain access to the receipt and delivery points they require and so will pay for capacity they may be unable to use.

The hybrid model allows auction participants to bid on a point-to-point basis for any unused capacity at individual receipt or delivery points, but their ability to secure capacity at those points will, in the case of pipelines, depend on whether there is sufficient:

- Contracted but uncommitted (CBU) capacity available in the receipt point zone and delivery point zone they wish to use; and
- CBU capacity along the segments of the pipeline they need to use.

### **Information Disclosure**

Whichever approach is adopted, Snowy Hydro's view is that information about contracted but un-nominated capacity at delivery points servicing a gas fired generator (GPG) is commercially sensitive and should not be published. Disclosure of such information would inform the GPG's competitors of the GPG's other arrangements for gas on the Gas Day and would have a detrimental impact on the competitive position of the GPG in the NEM. Snowy Hydro therefore welcomes the GMRG's decision to *"ensure the publication of information in advance of the auction does not directly or indirectly disclose a nomination made by a market generating unit as defined in the NER, AEMO will be able to implement measures to protect this information."*<sup>1</sup> It is important that this information remains confidential.

### **Grandfathered rights for Day-ahead auction**

Gas-fired electricity generation provides essential support to the NEM. Given the energy transformation and the rise of intermittent renewable energy, gas-fired generation will play a role in supporting energy needs. The GMRG has justifiably viewed the changes to the NEM with caution and recommended that gas-fired generation with existing as available and authorised overrun rights should rank ahead of the auction product for a transitional period in those cases where a service provider would be in breach of existing commitments if it scheduled these services after the auction product.

Snowy Hydro supports the intent of the grandfathered rights which will provide gas-fired generators some additional time to transition to the new arrangements to minimise any potential impact on the NEM. The grandfathering rights will allow the gas-fired generators to not face the immediate applications of the new regulatory changes that will add costs and require changes to the current processes at a time when these generators are implementing the five-minute settlement rule change.

With the growing integration between gas and electricity it is important that GRMG recognises the current and growing relationship between the gas and electricity markets in Australia. The increasing level of intermittent and distributed generation mean that gas turbines will play an increasingly

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<sup>1</sup> GMRG, 2018, "Capacity Trading Reform Package: Draft legal and regulatory framework - Consultation", pp49

important role in the NEM. Both open and combined cycle gas turbines are flexible and responsive enough to operate stably at different generation levels

Snowy Hydro appreciates the opportunity to respond to the Draft Report. Any questions about this submission should be addressed to Panos Priftakis, Regulation Manager, by e-mail to [panos.priftakis@snowyhydro.com.au](mailto:panos.priftakis@snowyhydro.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Ly', with a long horizontal stroke extending to the right.

Kevin Ly  
Head of Wholesale Regulation  
Snowy Hydro

