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Australian Energy Market Commission
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Submitted by email to aemc@aemc.gov.au

Project number: ERC0282

**Application of compensation in relation to Australian Energy Market Operator (AEMO)
interventions Consultation paper**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation paper from the Australian Energy Market Commission (the Commission) on the Application of compensation in relation to AEMO interventions.

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 does not agree with the premise of AEMO's rule change request - namely, that removing intervention pricing when AEMO intervenes to secure a non-market service also requires that compensation should not be paid to Affected Participants and Market Customers during that intervention.

Any intervention by AEMO in the market is a distortion. Interventions can compromise the current market design and its pricing signals, affecting wholesale electricity prices and market signals to investors, and the energy and compensation costs faced by consumers. Increased intervention will further distort spot price signals.

Snowy Hydro acknowledges that interventions are necessary from time-to-time and have become a challenge for AEMO as the NEM evolves, however longer term solutions to avoid the need for direction should be pursued rather than making it easier for AEMO to intervene. Irrespective of whether a participant is directed by AEMO or is an affected participant, there is a cost to the market from any intervention that distorts price signals (regardless of whether or not that service is traded in the market). Long-term customer outcomes are best protected by undistorted pricing signals that provide efficient investment signals for ongoing investment in new assets. In particular, in an energy-only market like the NEM, which is based upon decentralised decision making and market participants risking their own capital, it is critical that economic signals, through either intervention pricing or compensation for affected participants, are preserved as far as possible.

Snowy Hydro understands that the intent of the rule change request is to narrow the circumstances in which compensation is payable to participants affected by an AEMO intervention event. We are, however, concerned with the long-term impacts of affected participant services not being compensated. Focusing on the methodology for compensation rather than narrowing the trigger would provide a more informed and desirable outcome.

Even if AEMO intervenes in a way which does not trigger intervention pricing, market participants should nevertheless be compensated for the impact of those directions. Providers of 'peaking' services like Snowy Hydro have relatively small windows in which they are able to earn revenue in which to sustain their capital investment. If AEMO intervenes in ways which denies participants the ability to earn expected revenues, it creates long-term deleterious impacts on system security. Far from saving customers money (which appears to be the underlying rationale for AEMO's rule change request) this proposal would, in the long run, do the opposite. With participants undertaking less capital maintenance and investment, AEMO would ultimately need to engage in further costly market interventions, such as the RERT.

Expressed another way, removing the obligation to compensate participants for an intervention does not extinguish the cost of the intervention. The costs will persist, and will be borne by affected participants. If not compensated, the distortionary impacts of those costs will have long-term adverse impacts on market efficiency. The costs of interventions therefore need to be recognised and market participants must be compensated accordingly. Failure to do so will contribute to a 'missing money' problem in the NEM.

When considering whether to remove compensation to affected parties, the Commission must consider the long-term implications of any proposal. The consultation paper focuses on recent cases in South Australia noting the compensation to generators that do not contribute to system strength as a perverse outcome. It is important, however, to assess longer term impacts on what will occur in South Australia and across the NEM to generators and investors by narrowing compensation as many participants will be impacted even if they are not directed.

The rule change will result in unintended consequences which the consultation has failed to assess. These unintended consequences will likely result in higher costs and the compensation will be paid by consumers following the AEMO intervention in the NEM.

We appreciate the challenges faced by AEMO in maintaining system security during periods of system stress, and that it may need to call on additional services in these circumstances. Nevertheless, NEM participants are inherently vulnerable to market interventions by AEMO, and such interventions expose market participants to financial risks they have no control over and are unable to forecast. From the impact on their financial contracts to additional dispatch risk for participants, this would lead to increased costs that market participants would need to pay for.

Any change to the market should not make intervention easier; rather, it should understand the impact of increasing the distortion on market participants. Snowy Hydro believes a more appropriate approach would be to assess the methodologies of compensation rather than narrowing the trigger. This would allow a proper assessment of the total of payments made to directed and affected participants and allow participants to understand the costs and implications of the compensation. It is important that the Commission understand the consequences of intervention on both affected and directed participants before a proposal is implemented to narrow the compensation trigger.

Finally, Snowy Hydro does not agree with the Commission that AEMO's proposed rule change should be treated as a non-controversial rule change request under s96 of the National Electricity Law. The rationale for expediting the rule change appears to be one of convenience only, in order to align its commencement (if the rule is implemented) with the commencement of the final RRN rule. AEMO concedes as much in its rule change request, in which it expresses its desire to avoid establishing



“costly new systems for calculating Affected Participant and Market Participant compensation”.¹ This is not a proper basis for expediting a rule change and is inconsistent with s96.

Far from being “unlikely to have a significant impact on the national electricity market”, this rule change goes to the heart of fundamental issues now being considered in the NEM; in particular, how to sustain sufficient investment to maintain adequate system security and reliability. This is a growing problem, particularly with AEMO increasingly intervening in the market. The Commission is therefore wrong to characterise this rule proposal as merely part of a ‘secondary settlement process’. The Commission needs to undertake further work to understand the impacts of this rule change on incentives for participants and the long-term implications for the market.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Priftakis', written over a light blue horizontal line.

Panos Priftakis
Head of Wholesale Regulation
Snowy Hydro

¹ AEMO, *Electricity Rule Change Proposal - No Affected Participant Compensation Without Intervention Pricing*, September 2019, p2.

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