

17 August 2022

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Electronic submission

National Electricity Amendment (Amending the Administered Price Cap) Rule

Snowy Hydro Limited welcomes the opportunity to comment on the matters raised in the Consultation paper from the Australian Energy Market Commission on the National Electricity Amendment (Amending the Administered Price Cap) Rule ("Rule Change Request").

The purpose of this submission is to object to the Rule Change Request being assessed as an urgent rule change.

Legislative Framework

Under the National Electricity Law (NEL), the AEMC must not make a Rule in accordance with section 96 of the NEL (including as an urgent Rule) if it receives a written request not to do so, and the reasons set out in that request are not, in its opinion, misconceived or lacking in substance.

Basis for Objection

Snowy Hydro objects to the treatment of the Rule Change Request as urgent because it enlivens complex issues with significant implications for market participants, and we consider that these issues are most effectively considered through a comprehensive rule change process. Assessing the Rule Change Request as urgent would reduce the period available to participants to engage with the consultation, whereas the complexities of the matters raised in the request strongly militate against a shortened consultation period. The commentary below is made not as an objection to the Rule Change Request itself but rather to illustrate why it should not be processed under an expedited process.

The Administered Price Cap (APC) is an important market price setting designed to protect participants during periods of market volatility. As well as impacting the operation of the National Electricity Market (NEM), it influences the contracting decisions of participants in the contracts market. In particular, amending the APC will have significant implications for hedging contracts and the ability of generators to service those contracts.

Existing hedging contracts were entered into on the basis of the current APC, and the level of the APC is an input into the commercial decision making process of sellers of hedges. Increasing the APC while existing hedges are on-foot implies an increase in the volume of generation required to defend the financial obligations owed by sellers under those hedges. Generators that are fuel constrained, such as hydro assets, may be unable to source additional fuel to increase generation. To the extent that a generator is unable

to procure additional fuel to defend its contracts, it will be potentially exposed to very high spot prices, including the Market Price Cap. In the long term, new hedges will be entered into on the basis of the increased APC. However, during the period when existing hedges are on foot, the financial consequences of increasing the APC for sellers of hedges could be severe. The complexity and importance of these matters demonstrates that they should be considered under a comprehensive rule change process.

In justifying its proposal to assess the Rule Change Request as urgent, the AEMC states that the request "seeks to address the effective operation and administration of the wholesale electricity market.". Snowy Hydro acknowledges that the appropriate level of the APC is an important matter for the effective operation and administration of the NEM, however it is equally vital that the Rule Change Request also adequately considers the impact on the contracts market. The volume of energy traded in the contracts market is two to four times greater than that traded in the NEM. It is important that sufficient opportunity is given to adequately address the impact on both markets, otherwise this proposal risks undermining the role of contracts as hedging instruments.

For the avoidance of doubt, Snowy Hydro is not objecting to the proposed urgent status of the Rule Change Request on the basis of not supporting the rule change itself. Rather, this submission demonstrates that the request raises matters which have potentially adverse financial consequences for market participants (particularly in relation to the timing of any change) and which could disrupt the effective operation of the NEM. The significance of these matters illustrates that the Rule Change Request is deserving of assessment through the comprehensive rule change process, not an expedited process. Furthermore, the reasons set out in this request are neither misconceived nor lacking in substance and this notice therefore satisfies the requirements of s96(3) of the NEL.

Yours sincerely,



Leigh Creswell

Snowy Hydro Limited

