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Australian Energy Market Commission
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Sydney NSW 2000

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Submitted electronically

East Coast Gas System (ECGS) reliability standard and associated settings Consultation paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the East Coast Gas System (ECGS) reliability standard and associated settings Consultation paper by the Australian Energy Market Commission (the Commission)

Snowy Hydro agrees that to the extent a gas market reliability standard is effective it should improve visibility of shortfalls in supply and provide clarity of the terms on which AEMO intervenes in the market. We therefore support a reliability standard with associated governance and market setting arrangements being reviewed.

Need for a reliability standard and changing the market settings

A reliability standard for gas is now required to guide AEMO's enhanced monitoring and intervention powers. AEMO has identified that, in the absence of a standard, it was unable to determine whether contracting a portion of uncontracted capacity would sufficiently address the identified risks. The likely benefits of a reliability standard would apply more to objectively identifying tolerances of supply risk for peak daily and seasonal needs.

A reliability standard could also inform the level of facilitated gas market settings that play a crucial role in limiting risk for market participants, while also supporting efficient market operations and investment decisions. Where market settings do not adequately reflect the gas Values of Customer Reliability (VCR), this could impede efficient market outcomes and necessitate greater reliance on market interventions. A gas reliability standard is required to properly calibrate market price settings.

The development of a new gas reliability standard will be a challenging and complex task. This is demonstrated by work undertaken by the Reliability Panel to assess the form of the NEM reliability standard. Consistent with this, we consider more detailed analysis is ultimately required to facilitate an informed assessment of the suitability of different metrics. Snowy Hydro believes this work could be undertaken by an independent expert body like the Reliability Panel (subject to ensuring adequate representation from gas market participants / consumers) consistent with governance arrangements in the NEM.

Governance arrangements for market price setting reviews with the standard

After the NEM's suspension in winter 2022, the relationship between gas market Administered Price Cap (APC)s and the NEM APC was discussed in the 2022 Reliability Settings Review (RSS) however the review process was complicated by the fact that the gas market parameter review is conducted by a different body (AEMO) and in series, six months after the RSS, rather than in parallel. It is essential to ensure that price settings are appropriately aligned across these markets.

A review of market parameter settings in both the Short Term Trading Market (STTM) and the Declared Wholesale Gas Market (DWGM) is critical. Alignment across markets is important for the operation of the east coast gas market.

The market parameters should be able to change when they can become more effective or when they are subject to changes in cost structures. In saying that, if changes to the market Administered Price Cap (APC) are too high, for example, this will be reflected in future electricity cap strike prices, making it harder for small retailers to cover prices below the APC level therefore impacting competition.

With the growing integration between gas and electricity it is important that AEMO's review aligns the market parameters between gas and electricity where the NEM should also be considered. During periods of market volatility, gas-fired generation is typically the marginal source of generation. When the Cumulative Price Threshold is triggered in the NEM, and spot electricity prices are capped at the electricity APC, generators can be exposed to a scenario where they are effectively required to generate at prices below their cost of fuel - this is the scenario that occurred in the 2022 energy crisis. While the increase in the electricity APC in December 2022 addressed this particular issue, at least for the time being, it points to the risk of misalignment between the gas APC and electricity APC, as well as the broader need to consider the relationship between gas commodity markets and the NEM when determining market price settings in the respective markets.

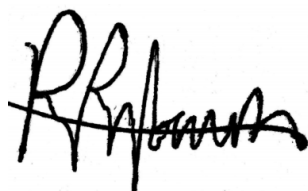
The parameter review should, therefore, recognise the current and growing relationship between the gas and electricity markets in Australia. The work undertaken by the Reliability Panel for changes to the market settings post 2025 should be aligned with the gas market parameter review.

About Snowy Hydro

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 appreciates the opportunity to respond to the East Coast Gas System (ECGS) reliability standard and associated settings Consultation paper by the Australian Energy Market Commission (the Commission). Any questions about this submission should be addressed to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Panos Priftakis".

Panos Priftakis
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Snowy Hydro