

30 April 2026

Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000

*Submitted electronically*

Dear Sirs,

## **Improving Compensation Frameworks Rule Change**

Snowy Hydro Limited welcomes the opportunity to comment on the AEMC's Consultation Paper for the *Improving Compensation Frameworks* rule change.

We support the consolidation of the three rule change requests submitted by AEMO and Tilt Renewables. This is an important opportunity to implement the recommendations from the AEMC's 2024 *Review into electricity compensation frameworks*, which identified flaws in the compensation methodologies and governance that were exposed during the June 2022 energy crisis.

Our submission focuses on four pillars:

1. Prioritising market-based measures: Preserving commercial decision-making and recognising the link between spot and contract markets.
2. The importance of opportunity cost: historically, the compensation framework focused on short-run marginal cost (SRMC), however this is not a meaningful valuation metric for hydro assets. It is essential that opportunity costs are properly recognised.
3. Streamlined governance: consolidating claim administration under AEMO to reduce administrative burden and increase timeliness.
4. Flexible and fair methodology: ensuring compensation remains cost-reflective and accounts for the unique circumstances of different technologies.

### **1. Objectives and Principles of Compensation**

Snowy Hydro supports the adoption of a formal objective for the directions compensation framework. While the AEMC recommends a distinct objective focused on cost recovery, Snowy Hydro believes that the overarching goal across all frameworks should be to maintain the incentive to supply.

A level of compensation that does not maintain this incentive, by failing to cover the full costs, including opportunity costs, will likely lead to under-compensation and

inefficient allocation of resources. We agree with the Commission's assessment that providing confidence in appropriate compensation is in the long-term interests of consumers by promoting reliability and security. Under compensation creates perverse incentives for generators and is ultimately a false economy.

## **2. Methodological Improvements**

### **2.1 The Primacy of Opportunity Cost**

Snowy Hydro considers the recommendation to allow opportunity cost claims across all frameworks as the most significant improvement to the framework.

- The current approach of allowing opportunity cost for some types of claims but not others lacks logic and unfairly penalises owners of storage assets. For hydro generators, SRMC is not an appropriate valuation metric because their fuel (water) is, notionally, free; the value of storage is linked to future market opportunities.
- The opportunity cost methodology must recognise a generator's forward contract positions. If fuel reserved for contracts is dispatched due to market intervention, the cost to replace that resource is a fundamental determinant of opportunity cost. This was Snowy Hydro's experience in the 2022 crisis. Given that almost every generator in the NEM contracts in the forward market, it is essential that the reality of contracting is acknowledged in the compensation framework.
- Opportunity cost will become more important as storage capacity in the NEM increases, reinforcing the importance of this reform.

### **2.2 Upfront Compensation and VWAP**

We support replacing the 90th percentile approach with a technology-specific Volume-Weighted Average Price (VWAP) for upfront payments.

- A 12-month rolling VWAP is more cost-reflective and less volatile than current methods.
- We agree that the VWAP calculation should exclude periods where generators were dispatched due to directions, as these prices do not reflect normal market costs.
- VWAP should not be capped at the APC, or reduced on the basis that there are few plant of the same technology in the same region. Such an approach would inherently disadvantage hydro assets and likely result in under-compensation.

- We support AEMO's proposal to include a fixed cost adjustment for directions to ensure units are compensated for start-up and minimum operating level costs.

### **3. Governance and Administration**

#### **3.1 AEMO as the Single Point of Receipt**

Snowy Hydro strongly prefers that AEMO should be responsible for all compensation frameworks.

- The June 2022 crisis highlighted the complexity of dealing with multiple bodies (AEMC and AEMO) for different claim types. Dealing with different bodies for claims over the same period was confusing and administratively complex.
- AEMO already has access to the data required to determine direct cost claims and experience in administering these processes.

#### **3.2 Time Limits for Claims**

While we support aligning time limits, we caution that AEMO's proposed 33-business day deadline is too short for complex opportunity cost claims.

- Snowy Hydro recommends a 60-business day overall time limit for providing supporting information for all claims, consistent with the 2024 Review's recommendation.
- This extra time is necessary because market intervention events often stretch organisational resources, and preparing high-quality "what-if" analyses for opportunity costs is labor-intensive.

### **4. Price Floor for Scheduling Errors**

Snowy Hydro cautions against adopting a binary \$0/MWh floor for scheduling error compensation, as it fails to account for the operational profile of storage assets. While a \$0/MWh floor offers protection from negative prices<sup>1</sup>, it may penalise storage. During negative pricing, storage assets are paid to store energy. Applying a \$0/MWh floor would strip the participant's right to be compensated for this lost revenue.

Rather than an arbitrary price floor, Snowy Hydro proposes that scheduling error compensation should be assessed as the fair value of the resource at the time of the error. A methodology that accurately captures the lost profit, whether from prevented

---

<sup>1</sup> We note, in any case, that the magnitude of negative prices is falling due to lower LGC prices, which suggests that the risk identified by Tilt is likely to diminish.

generation or prevented pumping, is the only way to maintain the incentive for participants to remain bid into the market.

Ultimately, the key is to ensure storage participants are kept whole for both lost generation revenue and lost pumping benefits.

## **5. Response to Specific Consultation Questions**

- Question 3 (Capacity Directions): Snowy Hydro supports recovering the costs of capacity directions (e.g., directing storage to consume energy for later reliability) solely from consumers. This aligns with the principle of recovering costs from the beneficiaries of the intervention.
- Question 5 & 6 (Independent Experts): Snowy Hydro supports the use of independent experts for opportunity cost claims across all frameworks. We urge the Commission to improve transparency in the selection process for the expert panel.
- Question 9 (Eligibility) Snowy Hydro supports AEMO's proposal to remove the separate process for determining eligibility for "other compensable services" under cl. 3.15.7A(a)-(d). The assessment of whether a service is compensable should be conducted together with the assessment of the costs of the claim itself. The current two-stage process, where AEMO must first advise a participant of their eligibility before a cost claim can even be lodged, is an unnecessary administrative hurdle that adds little value and delays resolution of claims.
- Question 11 (NER Consolidation): Snowy Hydro supports consolidating the frameworks under a single rule (Rule 3.12), provided it does not restrict the claims making process by participants. This should reduce the regulatory burden and make the current rules more navigable.

## **About Snowy Hydro**

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500MW of on-demand generation 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. We are one of the largest investors in wind and solar power purchase agreements in the NEM, helping to underwrite more than 2GW of new variable renewable energy capacity.