16 July 2026

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

Reference: ERC0359

Improving contingency FCAS arrangements Draft rule determination

Snowy Hydro welcomes the opportunity to comment on the Australian Energy Market Commission (Commission) Improving contingency FCAS arrangements Draft rule determination.

Snowy Hydro supports the Commission's decision to retain the existing contingency FCAS cost recovery arrangements and reject the proposed "runway pricing" model. Given the introduction of a new allocation method would have added complexity and uncertainty without delivering any commensurate improvement we believe the decision to not make a change will reduce customer costs. In recent years FCAS has diminished in importance to the market, increasing costs where there isn't a clear problem does not make material sense where there isn't a clear demonstrated problem.

The current proportional allocation of contingency FCAS costs has not led to material loss of market efficiency. Snowy Hydro submits that the FCAS costs represent a very small proportion of overall market turnover, and these costs have moderated over time due to increased competition from batteries and other fast-response technologies. Given this, any efficiency gains from changing the allocation method were marginal compared to the complexity and significant costs of implementing a new framework. It is for this reason the runway pricing model could have increased overall system costs.

Given the smaller FCAS markets relative to other markets, Snowy Hydro submits that a delay in the implementation could be proposed as it would be beneficial with AEMO's current workload. When there are more significant coal closures or the largest loads increase in the future, FCAS prices may rise. We submit that it would then make the reform changes more sensible to implement.

Cost recovery arrangements

Snowy Hydro supports the Commission's view that considers that implementing cost recovery arrangements would be complex to implement and are unlikely to produce material benefits for consumers. The existing approach effectively spreads costs broadly across participants minimising distortions to production and investment decisions.

We agree with the Commission that highlighted that *"these alternatives to be unsuitable, as they do not materially improve upon current arrangements or justify the associated costs and risks"*[1]

[1] AEMC, Improving contingency FCAS arrangements, Draft rule determination, 4 June 2026

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The current approach has supported a stable and predictable cost recovery framework. It is important to note contingency FCAS represents a comparatively small and declining share of total NEM costs, accounting for around 1-2% overall. While the broader FCAS market can occasionally spike during rare, severe grid disruptions (such as an interconnector failure islanding a state), the baseline cost of contingency FCAS has fundamentally bottomed out over the last few years.

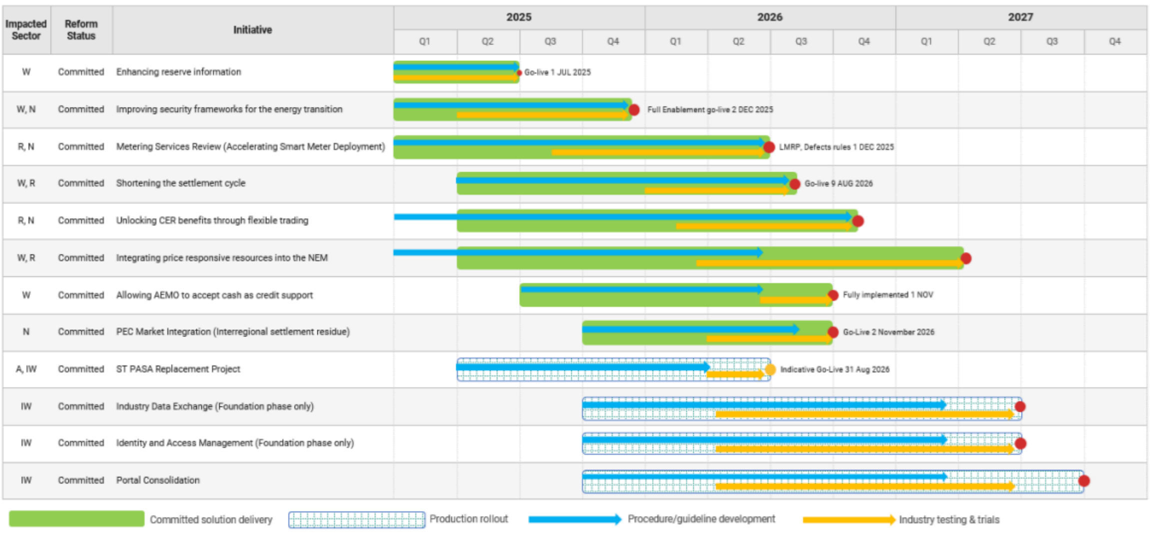
Implementation

Snowy Hydro understands the intent for the draft rule to introduce new weekly (quantitative) and quarterly (qualitative) reporting obligations for AEMO detailing exactly when co-optimisation constraints are applied and how they bind.

We agree with the Commission that improved reporting and transparency provides a pathway for evidence-based evolution of co-optimisation practices leading to consideration of market efficiency outcomes from co-optimisation over time[2]. We support the transparency these reporting obligations provide to allow major asset operators to better predict, analyse, and optimise their bidding behaviors against complex dispatch outcomes and price signals over time.

It is unclear however whether the clarified co-optimisation requirement which commences on 4 September 2026, followed by the new transparency and reporting obligations on 1 October 2027 is required in a short timeframe. It is unclear that there is a significant problem that needs to be solved by 2027 considering the amount of reforms AEMO needs to implement during that time.

Figure 3.2: AEMO has a pipeline of market reform project till mid 2027



Source: AEMC, 2026, based on AEMO NEM implementation road map, version 6.

As noted above, FCAS markets will likely become more important the more coal closes or the largest loads increase in later periods which could mean that implementation

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[2] AEMC, Improving contingency FCAS arrangements, Draft rule determination, 4 June 2026

could be delayed to 2028 or 2030 to account for the changes AEMO is currently making in other reforms.

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 Commission's Improving contingency FCAS arrangements Draft rule determination. Any questions about this submission should be addressed to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

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