

1 February 2024

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

Submitted by email to aemc@aemc.gov.au

Improving security frameworks for the energy transition Update Paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Australian Energy Market Commission (the Commission) Improving security frameworks for the energy transition Update Paper.

Snowy Hydro supports the need for an additional framework to fill a gap in existing security frameworks and the design of the proposed transitional arrangements. The technical understanding of system needs is currently insufficient to specify system needs at all times which has resulted in an over-reliance on directions.

There are significant efficiency benefits in individually valuing and procuring security services. It is for this reason we welcome the Commission maintaining the ultimate goal to individually procure and value security services, where this is possible and justifiable. To achieve this goal of unbundling services we agree with the proposals put forward by the Commission and propose further additional changes. We support:

- A separate report to address unbundling and transparency concerns, rather than the transitional services framework.
- more regular reviews to monitor AEMO's efforts towards unbundling on a more granular basis than the seven-year transitional services review.
- clearly describing and prescribing the pathway away from the transitional services framework to unbundled services.
- explicitly defining the security needs procured through the transitional services framework.

We consider in addition to the above there should be a greater role for the Reliability Panel to monitor and review the unbundling of services. Giving a greater responsibility to the Reliability Panel, would provide an independent assessment of the viability and requirement of unbundling services leaving the reviews solely with AEMO. This approach would improve the transparency and industry collaboration on system security needs.

While the Commission maintains the ultimate goal to individually procure and value security services we support in the interim for the security services being procured through contracts during the transition. It is sensible for type 1 contracts, for up to three years, to be procured through the transitional services framework rather than directions for managing the security of the system as it would provide AEMO with a mechanism to help manage the system through periods of high renewable penetration and low levels of synchronous generation, without resorting to interventions as a primary tool. It is however important that these contracts are designed as a transitional tool to meet a temporary need with a longer term need for markets.

In addition we support type 2 with trials to manage security in a low- or zero-emissions power system. With the inclusion of type 2 contracts the explicit reporting requirements on the outcomes of trials procured through type 2 contracts is important however should AEMO require longer type 1 synchronous generators in the form of unit combinations to provide the system's security needs then it should be able to do so if there isn't enough provided through type 2. There should continue to be incentives offered to existing services so that there are no barriers to the remaining service.

It is important that AEMO publish a transition plan for system security. This would help to provide investment signals to support investment in the right resources and capabilities needed to manage a secure system before existing plant retires and provide much needed transparency on the services AEMO requires to manage power system security.

Given the complexity of this transition, it is likely that there will be near-term costs in terms of AEMO resources that must be traded off against long-term savings. AEMO will need clear Rules based obligations and AEMC support to ensure this can be delivered.

Inertia

Snowy Hydro supports the Commission's position that the proposed transitional services framework does not preclude continued consideration of alternate procurement approaches, such as through the Efficient provision of inertia rule change project. The recent lack of progress on the inertia spot market rule change however has not been encouraging.

If there is a reluctance to support an inertia spot market then the Commission should engage in independent technical advice given that:

- AEMO currently calculates operational inertia
- ERCOT, Japan and the Nordic countries have real-time inertia monitoring and transparency.
- The Reliability Panel introduced rate of change of frequency (RoCoF) limits in the frequency operating standards (FOS) that could be referenced when setting inertia needs.

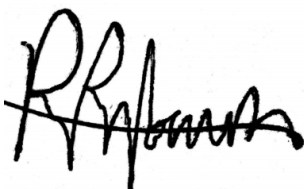
An inertia spot market is the most efficient inertia procurement tool that best meets the NEO, with lower costs when compared to TNSP procurement. There is an opportunity for an inertia spot market to co-optimize inertia with energy and FCAS.

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 security frameworks for the energy transition Update Paper. 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
Head of Wholesale Regulation
Snowy Hydro