

17 May 2024

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

Draft Report
Review of the Form of the Reliability Standard and Administered Price Cap

Snowy Hydro welcomes the opportunity to comment on the Draft Report for the Review of the Form of the Reliability Standard and Administered Price Cap Directions Paper (Draft Report). This submission comments only on the Reliability Panel's recommendations relating to the Administered Price Cap (APC). Snowy Hydro is otherwise comfortable with the Draft Report.

Snowy Hydro is disappointed that the Reliability Panel has not recommended indexing the APC or linking it to another metric such as the Market Price Cap (MPC). The role of the APC is not simply to protect load bearing participants from prolonged exposure to high prices in the NEM. It also serves as a crucial input and risk metric for generators when assessing the volume of hedging cover that they are able to responsibly offer to the market. As set out in Snowy Hydro's previous submission, the indexing of the MPC while retaining a static APC undermines the role of the APC as a risk mitigant for generators, because it creates a risk of increasing financial exposure before the APC is applied. Snowy Hydro hopes that the Reliability Panel will reconsider this aspect of the Draft Report. The longer this situation persists, the greater the risk for generators offering firm hedges, which will ultimately increase the cost of hedging cover.

Furthermore, Snowy Hydro reiterates its disappointment with the decision in late 2022 to double the APC with immediate effect. The recent volatility and subsequent triggering of the Cumulative Price Threshold in NSW is a reminder that fuel constrained generators bore the brunt of - that is, were unfairly allocated the risks associated with - the decision to implement this change without an appropriate notice period.

Snowy Hydro now finds itself exposed to the risk that it needs to generate to defend on-foot caps with a \$300/MWh strike price when the APC applies, in circumstances where it had carefully and in good faith structured contracts to avoid this risk. It was no coincidence that the \$300/MWh cap strike aligned with the \$300/MWh APC. The immediate and unforeseeable doubling of the APC created, at a stroke, potentially severe losses for sellers of caps. The precipitate manner in which the change was made ignored the realities of how hedging cover is transacted (ie. for a contract tenure of 1-2 years or more, to stabilise cash flows for both buyers and sellers). It also created new risks for generators, who must now account for the possibility that the APC will again be increased without adequate notice. Accordingly, Snowy Hydro requests the Reliability Panel recommend that any future increase to the APC should have a notice period of at least two years before it takes effect, similar in practice to the notice period provided for changes to the MPC.

Snowy Hydro appreciates the opportunity to respond to the Panel on this matter.