

5 September 2024

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000
Reference: ERC0386

Submitted electronically

**Inter-regional settlements residue arrangements for transmission loops
Consultation paper**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Inter-regional settlements residue arrangements for transmission loops Consultation paper by the Australian Energy Market Commission (the Commission).

The integration of PEC has created a need to consider the appropriateness of the way loop flow negative IRSR is managed and allocated. Australian Energy Market Operator (AEMO)'s preferred approach where Negative Residue Management (NRM) should only be applied where aggregate settlement around the loop is in deficit ('net negative') provided an appropriate balance that preserved the value of Settlements residue auction (SRA)s.

It is for this reason Snowy Hydro supports AEMO's preliminary position that reallocated negative IRSR should not be deducted from unit holders, via a reduction in positive IRSR as it aligns with regulatory precedent and would limit the impact on SRA processes and units.

AEMO has undertaken a detailed assessment in attempting to preserve the hedging value of SRA's however the work could be broader. We believe the Commission should seek a holistic approach on PEC and the impact it would have on hedges so participants have a better understanding of the overall impact.

If the option chosen is not effective then there is a high level of risk participants could pull out of the SRA. It is therefore unclear whether SRA's will remain fit for purpose for the original intent of supporting inter-regional hedging if any proposal includes a deduction from unit holders. Put simply, SRAs exist in order to manage inter-regional price risk. The AEMC should not adopt reforms which undermine this purpose.

Snowy Hydro supports AEMO's option and alternative AEMC Option 1 which would apply the existing arrangements. We understand this option would not solve negative residue concerns. However, allowing negative settlement residues to accumulate (and netted-off against positive residues) would be worse - it means that you either cannot effectively use Vic to SA as a way to offset the interregional price difference or at the very least you would require significantly more SRA unit holdings to make up the difference, due to the loss of effectiveness (which would probably be cost prohibitive).

We therefore oppose alternative Option 3. Option 3 would decrease the SRA pool which would have a significant negative impact on SRA's and is not supported.

Importance of SRA's as a hedging tool

The Commission notes that although some previous decisions have aimed to maintain the firmness of units, any future decisions on SRD units and the use of settlement residue auctions would consider whether the performance of this hedging mechanism provides benefits to consumers. Snowy Hydro is concerned by this as AEMO worked constructively with industry for a proposed approach that was an appropriate balance that preserved the value of SRAs. The value provided by SRAs to consumers is linked to their firmness. If they are no longer firm, or become less useful as a hedging tool, they offer less consumer value.

SRA units are important instruments that allow generators in one region to manage the risk in adjoining regions. SRAs should give confidence to generators that the SRA units will allow them to manage the risk of price separations between the regions. The Commission has not adequately addressed the benefits of SRA both for generators and consumers. The key benefits includes:

- The ability to manage interregional risk boosts liquidity in the electricity financial market and gives retailers access to a larger offering of financial products to manage their spot price risk.
- Inter-regional risk will only become more important as the NEM becomes more reliant on variable renewable generation.¹
- SRAs facilitate retail competition, because they allow generators to offer hedges to retailers, especially new-entrant retailers that do not have their own source of generation, on an inter-regional basis.
- Diminishing the value of SRA's as a hedging tool will have detrimental effects on trading outcomes, increased participant costs and diminished retail competition, which would be passed back to customers.
- It is important to preserve the effectiveness of SRA's as hedging sources as it will aid in supporting auction clearance, resulting in lower costs for customers.

As noted by the Commission, "stakeholders broadly accepted AEMO's proposed approach to clamping and negative residue reallocation, with no changes to the settlements residue auction (SRA) process" with many stakeholders emphasising "the importance of maintaining the hedging value of settlements residue distribution (SRD) units sold through the SRA process, and therefore opposed any options that involved deducting negative residues from SRD unit payouts."

We agree with the Commission not considering the allocation of IRSR to parties other than TNSPs or SRD unit holders.

About Snowy Hydro

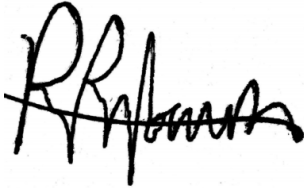
Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable

¹https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/project-energy-connect-market-integration-paper/submissions-to-directions-paper/energy-australia.pdf?la=en

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 on the Inter-regional settlements residue arrangements for transmission loops, Consultation 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 "P. Priftakis".

Panos Priftakis
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Snowy Hydro