

20 December 2024

Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000  
Reference: ERC0407

Submitted electronically

### **South Australian jurisdictional derogation - Interim reliability reserve eligibility Consultation Paper**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the South Australian jurisdictional derogation - Interim reliability reserve eligibility Consultation Paper by the Australian Energy Market Commission (the Commission).

Snowy Hydro understands the challenges the Australian Energy Market Operator (AEMO) faces in managing energy supply. In assisting AEMO to manage liability risks in the upcoming summer period in South Australia the proponent proposes utilising the capacity of the Snuggery and Port Lincoln generators. The proposal should remain a time-limited jurisdictional derogation from clauses 3.20.3 (g) and (h) of the NER as it will provide AEMO with a temporary backstop it can deploy in times of emergency.

In saying that, this rule change could come at a cost to consumers and create a bad precedent for the market in the future which the Commission should address. It is always more efficient for these resources to be drawn into the market. This would benefit retailers and customers by increasing availability of hedging products, making additional lower-cost contracting available to consumers.

There is only one market in the NEM and all regulatory settings should be calibrated to incentivise participation in the market. While this is a one off rule change the Commission's ultimate goal should be to encourage participation in the NEM. Snowy Hydro is concerned that this rule change could set a wrong precedent in the NEM. The signals for long term investment signals could be impacted as the RERT could be seen as another revenue stream for existing dispatchable resources that would otherwise retire or be mothballed. This would not directly facilitate new investment.

The Enhancement to the RERT rule change in 2019 worked to *"minimise the potential for market distortions by making sure that only reserves that are not in the market are participating in the RERT"*<sup>1</sup>. We agree with the Commission's view under this rule change that the market should be the primary mechanism by which reliability is achieved, and the 12-month rule aims to uphold that for scheduled emergency reserves. This rule should remain apart from this exception as without the rule in place, there is a risk that providers would exit the market in order to be contracted (and potentially paid at a higher and/or more certain rate) for reserves, driving up prices, rather than using their own financial justification to exit the market

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<sup>1</sup> AEMC, South Australian jurisdictional derogation - Interim reliability reserve eligibility, Consultation paper, 28 November 2024

AEMO's RERT function allows it to procure out-of-market reserves and these resources do not participate/bid in the spot market instead they contract directly with AEMO. Capacity procured under the RERT can be very expensive, if used significantly, and the flow on impacts of the RERT is recovered from consumers with the use of RERT discouraging hedging, as the cost of underhedging is shared equally by all retailers. It is important to note that in an energy only market, hedging is also a pre-requisite for investment in new generation capacity.

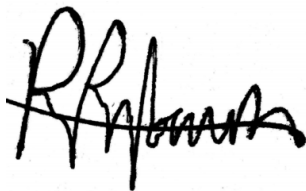
Intervention in the market should always be a last resort in the market to increase investment confidence. Hence the RERT should only be used as a last resort safety net and the energy-only market should be left to deliver the economic level of bulk supply reliability to customers. Snowy Hydro notes that there are other intervention mechanisms besides RERT, ie. Directions and Instructions which could be utilised in cases of genuine market shortfall.

### **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 Commissions South Australian jurisdictional derogation - Interim reliability reserve eligibility Consultation Paper. Any questions about this submission should be addressed to [panos.priftakis@snowyhydro.com.au](mailto:panos.priftakis@snowyhydro.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read "P. Priftakis", written over a horizontal line.

Panos Priftakis  
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Snowy Hydro