

17<sup>th</sup> December 2008.

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Sent electronically to:  
submissions@aemc.gov.au

Dear Dr Tamblyn,

### **Rule Change Proposal – Spot Market Insurance Fund**

Snowy Hydro formally proposes a Rule Change for the making of a new National Electricity Rule. This rule change proposal has followed the Commission's guidelines for preparing a Rule change proposal.

The proposed Rule is a competing alternative Rule change proposal to the NGF's Physical Market Cap Trigger Rule proposal.

The Snowy Hydro proposed Rule would establish a Spot Market Insurance Fund whereby participating Market Participants would be eligible to claim compensation for Spot market contingency events(s) which have a low probability of occurring but when it does occur result in high financial impact.

These system contingency events must satisfy specified conditions in order for affected Market Participants who are members of the fund to claim compensation from the Fund. Participation by Market Participants in the Spot market insurance fund is on a voluntary basis.

Snowy Hydro proposal is motivated by the serious problems inherent in the NGF proposal. These problems include:

- Significantly distorting spot market outcomes;
- NEMMCO intervention is required in the Spot market in real time and under system security stress;
- The NGF proposal may require further flow on market interventions such as market directions to balance the underlying supply and demand balance.

Snowy Hydro believes the Spot Market Insurance Fund will address the core NGF issue motivating its Rule change proposal. That is the desire to mitigate "unmanageable" material financial losses following a major power system disruption event.

The Spot Market Insurance Fund is proposed to be administered by the AER. The AER in consultation with Market Participants and NEMMCO would develop:

- Trigger conditions for compensation;
- The form of the Fund;
- Membership and Costs.

The major difference and advantage of the Snowy Hydro proposal compared to the competing NGF proposal is that the Spot market is not suspended during the relevant spot market contingency event(s). The assessment of compensation is determined after the contingency event(s) when all relevant parties have the time, resources, and all necessary data to determine whether compensation is warranted and thus avoids decision making at times of system security stress.

The rule change drafting to implement the Spot Market Insurance Fund would be subject to detailed consultation by the AER on the mechanics of how the Fund would operate. It would be premature to draft a comprehensive rule change thereby pre-empting the form the Fund would ultimately take. Snowy Hydro has therefore only provided a draft rule on the establishment of the Spot market insurance fund.

In summary, Snowy Hydro submits this rule change proposal as a competing alternative to the NGF Physical Market Cap Trigger rule proposal.

Please contact Kevin Ly, Manager Market Development and Strategy on (02) 9278 1862 if you would like to discuss any issue associated with this Rule change proposal.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Roger Whitby', is written over a light blue rectangular background.

Roger Whitby  
Executive Officer, Trading

