

30 July 2020

Australian Energy Market Commission  
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Submitted by email to [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

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### **Removal of Intervention Hierarchy Draft rule determination**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Draft rule determination from the Australian Energy Market Commission (the Commission) on the Removal of Intervention Hierarchy.

Snowy Hydro believes that any approach which is chosen should minimise costs to consumers while maintaining system reliability. It is for this reason that the hierarchy of interventions mechanisms set out in the NER, in particular the requirement that, where the Reliability and Emergency Reserve Trader (RERT) has been procured, should be used in preference to directions and instructions should remain. The Commission has not demonstrated how the recommendation to introduce flexibility in the way that Australian Energy Market Operator (AEMO) prioritises which intervention mechanism to use, will minimise direct and indirect costs to consumers, who ultimately bear the costs of the RERT and directions. Further to this the Commission's use of the direction to Colongra on 1 February 2020 is an event which has nothing to do with the reason AEMO needs flexibility.

It is unclear if the Commission does present cases where there is an issue of a Direction to a generator is preferred to the exercise of a RERT contract how the indirect costs associated will be taken into consideration. With the constantly changing rules we strongly suggest that the Commission considers the unintended consequences which could encourage the operator to direct generators to run without declaring a formal direction, avoiding having to pay compensation, imposing greater costs on generators and on to consumers. Furthermore, AEMO's perception that directions 'cost' less than dispatching RERT resources during times of scarcity probably reflects the fact that compensation under RERT contracts is commercially negotiated, whereas compensation for directions is prescribed by the Rules and probably undervalued. Accordingly, directions may seem relatively cheap to AEMO, but compensation for directions in many cases will disguise the true cost borne by directed participants.

This proposal would continue the concerning trend of normalising the use of directions as a tool by AEMO to manage the power system. As a coercive measure they were always intended as, and should remain, an absolute last resort, rather than being seen as one of many competing options for AEMO to manage system security. Their increased usage will undermine the structure and ultimately the performance of the NEM as an energy-only market, which relies on voluntary participation. Participants in the RERT are participating voluntarily whereas mandatory action through directions entails requiring a market participant to act differently from what they have chosen. This could have unintended cost consequences on plant and is another clear reason why voluntary actions such as the RERT should take precedence over compulsory actions. When there are any unforeseen emergencies we understand the market operator needs to compel participants but these do not occur frequently and does not necessitate the need to change intervention hierarchy.

The NEM has always had some form of regulatory mechanism that has allowed AEMO to contract for emergency reserves and we believe that the RERT is the best first response mechanism followed by either directions or instructions to maintain system reliability. The RERT should only be used as a last resort safety net and the market should be left to deliver the economic level of bulk supply reliability to customers. Should the RERT be necessary, where possible the Short-Notice (SN) or Medium-Notice (MN) RERT mechanisms should be utilised to procure reserves for anticipated shortfalls. This is because longer lead times greater than 10 weeks are more prone to less accurate forecasts of demand and may trigger procurement of unnecessary Long Notice RERT resources.

The RERT mechanism is limited in its market-based characteristics however it is much closer to a last-resort means by which system reliability can be maintained. The AEMC notes that *“a practical implication of AEMO’s rule change request to remove the hierarchy of interventions may be a potential increase in directions for reliability where those directions are more effective and lower cost than dispatching RERT”* noting however that *“this potential is limited by the fact that, during periods of supply scarcity, participants are typically incentivised to participate in the market voluntarily”*. This therefore raises the question as to why is there a need to make the change in the hierarchy if this will not change the way interventions are used?

If the Commission is unable to provide evidence that exercising emergency reserves before issuing directions or instructions does not necessarily mean that the intervention will be less effective and/or efficient, how does this rule change contribute to the achievement of the national electricity objective (NEO).

As much as AEMO endeavours to minimise the costs through their actions, it's common practice for peaking generators, which incur relatively high start-up costs, to seek to avoid operating for very short periods. The direction issued to Colongra in February is not a valid reason to change the intervention hierarchy as that is centred around a short term operational issue to do with short term dispatch of small megawatt (MW) quantities and how a plant that is physically available but bid unavailable as a result is reflected in AEMO's reserve calculations. Snowy Hydro and AEMO have since reviewed the event and we do not envisage the same issue happening again.

Should the rule change proceed, the market operator should be required to determine the lowest cost option for consumers, either exercise of a RERT contract or issuing of a Direction, prior to any exercise of its market intervention powers. The Commission’s recommendation to introduce a new principle to guide AEMO in prioritising the use of RERT and directions therefore is a sensible approach for this change. What AEMO would need to have regard to the following principles when choosing which intervention mechanism to use in times of supply scarcity would include:

- *“actions taken should be those which AEMO reasonably expects to minimise direct costs to consumers of electricity.*
- *actions taken should be those which AEMO reasonably expects to have the least distortionary effect (i.e. minimise indirect costs) on the operation of the market.*
- *actions taken should aim to maximise effectiveness of the intervention.”<sup>1</sup>*

Snowy Hydro would not support an arbitrary amendment which required issuing of a Direction prior to exercise of a RERT contract without the requirement for assessment of overall costs to consumers.

## **About the Snowy Hydro Group**

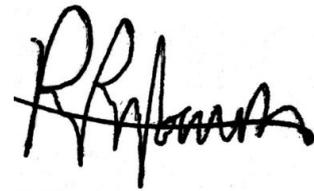
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<sup>1</sup> AEMC, Removal of intervention hierarchy, Draft rule determination, 18 June 2020, pp5

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. Collectively, they retail gas and electricity in South Australia, Victoria, New South Wales, Queensland and the ACT to over 1 million customers.

Snowy Hydro appreciates the opportunity to respond to the Commission on the Draft rule determination on the Removal of Intervention Hierarchy and 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', is written over a light blue circular stamp. The signature is fluid and cursive.

Panos Priftakis  
Head of Wholesale Regulation  
Snowy Hydro

