

7 October 2022

Attention: Energy Ministers Secretariat

Electronic Submission

Dear Sirs,

Consultation – Extension of AEMO Functions and Powers

Snowy Hydro welcomes the opportunity to comment on the matters raised in the Consultation Paper for the Extension of AEMO Functions and Powers to Manage Supply Adequacy in the East Coast Gas Market. Please see attached submission.

Yours faithfully,

A handwritten signature in black ink that reads "Leigh Creswell".

Leigh Creswell

Snowy Hydro Limited

Consultation – Extension of AEMO Functions and Powers

Submission from Snowy Hydro

A. Proposed initial reforms

Number	Question	Reference to section in the draft bill/regulations/rules (if applicable)	Feedback
1	Do stakeholders have any comments on the scope of AEMO's new reliability and supply adequacy functions and the related rule-making powers as outlined in the draft Bill?		<p>The draft bill grants wide-ranging powers to AEMO, with limitations and safeguards on many aspects of those powers to be considered under secondary processes. Consideration should be given to embedding protections for participants in the bill itself, rather than being determined at a later stage.</p> <p>The changes may have material impacts on participants and the market which would flow through to consumers. The risk introduced by enacting these Rules and subsequent Procedures without sufficient consideration, i.e. by fast-tracking the consultation, puts the proposal at risk of failing to meet the National Gas Objective and National Energy Retail Objective. In particular, Snowy Hydro suggests that the AEMC reconsider the proposal for NGR r135EE and r135EF to be 'switched-off' (ignored) to enable AEMO to develop procedures in parallel with the development and implementation of the legislative amendments consulted in this paper.</p>
4	Do stakeholders consider that AEMO should develop any specific procedures or guidelines for its new functions?		AEMO should set out clearly, in advance, the instances and extent to which any new powers and functions are expected to be deployed, in order to provide certainty to market participants and to allow participants to mitigate any cost impact that must arise from AEMO's use of those powers.
5	Do you think a review of this regulatory package after three years is appropriate?		Snowy Hydro considers that a review of the regulatory package is appropriate. In addition, consideration should be given to applying a sunset date to measures which are expected to be transient.
Transparency – Regarding the proposed additional information requirements set out in Table 1 of the consultation paper:			

Number	Question	Reference to section in the draft bill/regulations/rules (if applicable)	Feedback
6	Do the proposed additional reporting requirements provide sufficient daily and monthly information to enable AEMO to monitor and signal potential threats to east coast gas system adequacy over a sufficient forecast period?		<p>Retailers: Snowy Hydro considers that there is limited utility in the proposed reporting requirements for energy retailers' expected mass market consumption of natural gas. Consumption on any given day is largely determined by prevailing weather conditions and there are already publicly-available weather standards for gas forecasting (eg. effective degree day). Snowy Hydro is concerned that reporting requirements for energy retailers would impose additional cost without any appreciable benefit.</p> <p>Generators: it is difficult to accurately estimate future gas consumption by gas-fired generators. Gas-fired generators in the NEM mostly operate as peaking capacity on low capacity factors and are frequently embedded within an integrated portfolio of other generation assets. Expected generation from these assets will be uncertain, reflecting the underlying volatility in the NEM. Accordingly, reporting requirements for generators should acknowledge the inherent variability and uncertainty regarding gas usage.</p>
Directions Powers – regarding the initial broad powers to be provided to AEMO to take necessary action to manage the risk of gas supply shortfalls in winter 2023:			
11	Are there particular principles which should guide AEMO's expanded powers of direction?		AEMO's expanded powers should be wielded as a last resort, always subsidiary to market-based solutions. Any intervention, no matter how it is structured, is likely to have some impact on market incentives. In providing a framework for AEMO to intervene in the market, it is also critical to distinguish between genuine threats to system security and instances of market failure from pricing pressures arising from a temporal imbalance in supply and demand.
17	What costs should parties who must comply with directions be able to seek compensation for? (e.g. direct costs, opportunity costs)		To the extent electricity generators are directed by AEMO pursuant to its function to manage gas supply adequacy, generators should be entitled to be compensated for opportunity costs in respect of the exercise of those powers.
18	How should the costs of compensation be apportioned and recovered from the market?		The appropriate apportionment of costs will depend on the nature of the powers being exercised. However, clear ex ante guidance should be provided as to the nature of cost apportionment, so that participants are not unknowingly exposed to cost recovery through their gas market operations.

D. Future reliability and supply adequacy reforms

Section 4 of the consultation paper outlines future additional reliability and supply adequacy reform works which will require further technical analysis, stakeholder consultation and detailed policy design. If you have comments on any of the additional future work streams, please do so in the table below.

Number	Question	Feedback
In relation to the proposed reliability and supply adequacy reforms outlined in Section 4 of the consultation paper, please provide initial feedback on the merits of these proposals, noting formal consultation will occur in 2023, when the policy design process has been further progressed.		
23	In your opinion, are any of these proposals more or less important to address reliability and supply adequacy concerns?	Snowy Hydro considers that caution should be exercised before adopting the types of intervention discussed in section 4 of the consultation paper. In particular, potential new obligations which would require parties to “contract sufficient storage or additional sources of supply and/or demand reduction to manage extreme demand peaks and/or critical supply shortfalls” could undermine incentives for market responses, reduce allocative efficiency and increase costs for participants and consumers. The role of these measures must be considered in light of the current disruption in gas markets, ie. as a result of international events creating a worldwide shortage of energy, rather than structural defects in domestic gas markets.