

19 January 2023

Australian Energy Market Operator
Level 22
530 Collins Street
Melbourne VIC 3000

Submitted by email to StakeholderRelations@aemo.com.au

Project Energy Connect Implementation Paper

Snowy Hydro Limited welcomes the opportunity to comment on the Australian Energy Market Operator (AEMO)'s Project Energy Connect Implementation Paper.

The market integration of Project Energy Connect (PEC) will require changes to certain operational procedures with AEMO giving initial consideration to the extent to which these processes need to be adjusted NEM-wide or specifically for PEC. Snowy Hydro therefore welcomes AEMO's initial approach to assess methods to calculate and allocate negative settlement residue (NSR), including implications for settlement residue auction (SRA), through the four options proposed for stakeholder consideration and feedback.

Snowy Hydro's preferred approach with regards to the management of negative interconnector settlement residues is option 1 (a) which is the no change approach where all negative residues are funded from the settlement residue auction proceeds payable to transmission network service providers (TNSPs).

Option 1 (a) is the simplest solution which would not require AEMO to clamp down on interconnector flow for negative residue within the transmission loop. This option would preserve the value of SRAs and provide certainty for market participants which would improve contract liquidity. There are currently loops through the NEM but they are unnoticed due to regional pricing. The Option would allow load to flow inter-regionally with certainty which was one key reason for building PEC.

The obvious challenge would be the unknown cost of funding these residues which would fall initially upon TNSPs who would pass them onto customers. It has been suggested that a quarter's auction proceeds could be first drawn upon before recovering funding from TNSPs.

AEMO notes that implications of Option 1 (a) is that *"If NSRs were to be allocated to TNSPs uncapped, this would represent a significant increase in NSRs distributed to TSNPs who are neither able to manage nor mitigate against such risks."* This is a cash flow timing issue for the TNSP and we support AEMO doing further work to solve that issue. Ultimately consumers will pay for the NSR under other solutions, so we believe it is simpler to do it directly via the TNSP.

Option 3 requires more work to be undertaken if it is to be considered. The paper does not make it clear if AEMO will still look to clamp the flows. While Option 3 has a number of methodologies AEMO could assess this proposal to prevent issues regarding negative residues however we are concerned that this would reduce the inter regional hedging effect of the links that have to reallocate some of their positive residue to the negative residue link. It is for this reason that we do not support option 3.

Snowy Hydro does not support Option 2 to bundle the SRA into a single bundled link. This proposal has also not clearly demonstrated if AEMO would look to clamp the flows as they currently do and it could also remove the ability to use individual SRAs as an adjacent inter-regional hedge. In addition we do not support Option 4, which would require an entirely new transmission access framework making the option more complex and costly to implement. The Energy Security Board (ESB) is no closer to proposing a final access reform proposal, due to industry push back, and States are doing their own softer access reform proposals for Renewable Energy Zones (REZ)'s.

In regards to SRA units already auctioned, we do not support any proposals to suspend any on foot SRA's or any auction suspensions. Consideration should be given in regards to auction units after June 2023 if there has been no preferred option chosen from the four proposed by AEMO. Snowy Hydro believes that already auctioned SRA's should not be impacted as the affected SRA's won't be sold until later in 2023 which gives AEMO more consultation time to make a decision without affecting any on-foot instruments.

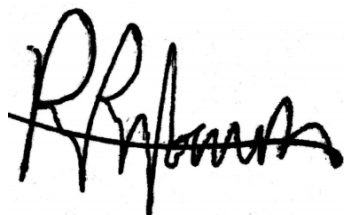
Snowy Hydro supports more detail being released from the options in the consultation. There is a risk associated with only one consultation and a webinar being scheduled for after decisions and submissions are made. While we understand a decision on the preferred option is time sensitive, we would support an extra round of consultation being given to respond to any preferred option chosen by AEMO.

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 Project Energy Connect Implementation Paper and any questions about this submission should be addressed to me by email to panos.priftakis@snowyhydro.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Panos Priftakis', written over a light blue horizontal line.

Panos Priftakis
Head of Wholesale Regulation
Snowy Hydro

