

17 September 2025

NEM Review Panel

Submitted online



## **NEM Review – Draft Report**

The Australian Financial Markets Association (AFMA) is responding to the panel's National Electricity Market Wholesale Market Settings Review Draft Report.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, environmental, carbon, and other specialist markets. Our membership base is comprised of over 130 of Australia's leading financial market participants, including many of the key participants in the NEM.

---

### **Key Points**

- i. AFMA welcomes the panels' work**
  - ii. Members look forward to working to refine and implement the draft recommendations**
- 

AFMA considers that the panel has done an excellent job of identifying the key challenges the energy market faces and proposing credible pathways to address them. We particularly note the work the panel has put in to understand the role of the financial market and to include it in their recommendations, and the excellent efforts they have made to engage with a broad range of stakeholders.

AFMA considers that the draft report forms a sound basis to develop an enduring regulatory framework that can support the industry to navigate the energy market transition and we look forward to continuing to work with the panel to develop their recommendations.

AFMA agrees with the panel's recommendations that the spot market continues to be an efficient way to manage the power system in the operational timeframe and that there is no need for capacity or physical ahead markets, nor locational marginal pricing.

### **1. Contracting**

AFMA supports the panel's approach of supporting the contract market and using it to incentivise construction of new assets. We consider that a strong industry led co-design process is necessary for this approach to succeed. The co-design process offers the potential for market participants to be able to drive the development of a contracting framework that supports new investment and facilitates participants in managing their risk, while remaining flexible enough to the changing needs of a system in transition.

We want to acknowledge that the panel has already started working with stakeholders on how to implement these recommendations and that much of the detail of how they will operate will be developed through this process, but AFMA makes the following comments on how we consider this framework should be developed.

## **1.1. Co-design**

AFMA considers that a strong co-design framework is essential to allow the panel's recommendations to be implemented successfully and we appreciate the panel's parallel work to pilot the co-design process, and hope the learnings from this process will be incorporated into the final recommendations. We consider that the framework should be designed as an industry led process and that it should be flexible enough to allow it to evolve to manage the changing needs of the energy market transition without the need for further government action.

### **1.1.1. Industry led**

For the Electricity Services Entry Mechanism (ESEM) and Market Making Obligation (MMO) to succeed, the contracts that are developed to support them must be relevant to the needs of the market. AFMA considers that industry leadership of their development is the best way to ensure this, as it will allow people with expertise of and experience in the financial market to design contracts that can suit the needs of the market. While not an exact analogy, we consider that the Reserve Bank's approach to regulating the payment systems could serve as a model. Under the *Payment Systems (Regulation) Act 1998* the Reserve Bank is given powers to regulate the payment systems but there is a presumption against regulation with the industry permitted to determine the rules of the payment systems and the Reserve Bank only intervening when it considers it is in the public interest to do so. We consider that the co-design framework should be designed to allow the industry to lead the development of the ESEM and MMO contracts with regulators only intervening if the industry is unable to make a decision, or there is a compelling public interest to deviate from the industry's proposed approach.

### **1.1.2. Flexible process**

AFMA considers the co-design process needs to be flexible enough to accommodate the changing needs of the energy market. In the short term we think this is likely to require the process to be able to adapt to the current uncertainty around how the market is evolving to contract new types of services such as intra-day shaping and the change in the bulk-energy market brought about by the imminent end of the incentives under the Renewable Energy Target (RET). In the long term, we think the co-design process needs to have the ability to revise the underlying services that the contracts cover, to reflect the changing needs of the physical market. AFMA agrees with the panel that bulk-energy, intra-day shaping, and long-duration firming are currently the products the market needs. However, we think for the framework to remain suitable for the energy transition it will need to have the capacity to develop new services as they are required. To facilitate this we think there should be no restriction on the co-design body:

- Making decisions more frequently than every two years
- Specifying multiple contracts for a given service

Additionally, we consider that there should be a mechanism to allow the co-design body to revise the underlying services to meet the changing needs of the market.

### **1.1.3. Coordination**

As discussed above, AFMA considers that making the co-design process genuinely industry led gives it the greatest chance of success. We appreciate that it is necessary for a public body to convene the co-design process and for there to be a fall-back decision making process in the event that industry is unable to make a decision, but we do not think the AER is the appropriate body to perform this function. AFMA has two main objections to the AER coordinating the co-design process:

1. Competence – the AER currently has very limited knowledge of the financial market or experience operating in it, which we think makes it unsuitable to perform this role. While we appreciate that the AER would likely seek to increase its expertise if it were given the role, we think it would be difficult for the AER to establish and maintain genuine in-market expertise to support a minor function that may only have to be exercised once every couple of years. We want to call out that AER salaries are unlikely to be competitive for people with deep financial market expertise and given the limited need for these skills in the AER, we anticipate it would be difficult for them to retain appropriately skilled and experienced staff.
2. Regulatory approach – AFMA considers it is essential that the co-design process be industry led with government agencies playing a supporting role. Our members experience to date is that institutionally the AER struggles to operate in this manner. We are concerned that, regardless of how well intentioned they may be, a process that involves the AER will become an AER led process with an overly legalistic approach to consultation and decision making that will inhibit the functioning of the co-design process.

AFMA consider that the ESEM administrator should be the public body that coordinates the co-design process. We think the ESEM administrator will bring expertise to the process as, by the nature of its function, it will be actively participating in the financial market and will have very practical experience of how successful the contract designs are and, by necessity, will be staffed by people with financial markets expertise. Additionally, we think that as the ESEM administrators dealing with the market will be predominately commercial rather than regulatory, they will be better placed than a regulator to facilitate an industry led process and are likely to be more comfortable with a pragmatic commercial process.

#### **1.1.4. Scope of co-design**

AFMA considers that to ensure the ESEM and MMO contracts are fit for purpose, the co-design process should cover all of the key commercial elements of each contract. As a result, we think most of the factors in the panel's draft recommendation 6B should be factors that the co-design body should have regard to when developing contracts but should not be mandatory content. For instance, we do not think ESEM contracts necessarily need to be able to be exchange traded, and we think that the standard parcel size is fundamentally a commercial term that the market needs to reach consensus on and which may vary depending on the type of product.

#### **1.2. Interaction between the ESEM and the MMO**

A point that AFMA thinks the panel should clarify is that, while the co-design process will develop contracts for both the ESEM and MMO, it should not be assumed that these contracts will necessarily be the same or that the same attributes will be relevant to all of them. For instance, AFMA anticipates that initially, the MMO contracts could be ASX listed caps and baseload swaps as these are currently the most liquid products that are valuable to allow retailers to manage their risk. The Draft Report contemplates that caps may be an appropriate product for long-duration firming services but does not contemplate that baseload swaps will be relevant for any ESEM products. AFMA also considers that there are a number of products available on OTC platforms, such as TOD Markets time of day products, that should also be considered for the MMO as they could operate as effective hedges and investment signals.

AFMA suggests that the panel's final recommendations should clarify that the ESEM and MMO contracts do not need to be the same and we encourage them to consider what characteristics are necessary for each type of contract as part of their pilot co-design process. For instance, being listed and fungible are likely to be very desirable characteristics for MMO products but may be less relevant for the ESEM. Similarly, the required tenor is likely to vary between contracts suitable for supporting investment under the ESEM and MMO hedging products.

### **1.3. ESEM**

AFMA supports the panel's proposal to establish the ESEM. We consider that at a high level, it is a well thought out mechanism that incentivises investment in assets that can deliver the services that the market needs while also encouraging these new assets to participate fully in both the physical and financial markets.

AFMA considers that additional policy work is required to clarify how the ESEM will operate and what the governance arrangements are for the ESEM administrator, and looks forward to working with the panel to develop its final recommendations.

#### **1.3.1. ESEM design**

AFMA would like the panel to provide additional information about how the targets for the various ESEM services will be set and what project will be eligible to participate. Particularly we would like to know:

- if there will be a role for state governments in determining the ESEM targets for their state
- how any state based obligations will be incorporated into the ESEM framework
- if refurbishments and expansions of existing units will be able to participate in the ESEM

Additionally, AFMA would like some clarity about how the panel proposes to operationalise draft recommendation 8C regarding using the ESEM to promote competition. Particularly, we would like to know if the panel anticipates that promoting competition will be one factor that the ESEM administrator must consider when entering into contracts or if the panel intends to implement hard caps on the amount of each service a participant may provide? While we appreciate the panel's intention to improve competition, we want to caution that an inflexible policy may result in unnecessary costs for consumers if incumbents are prevented from offering competitive products and encourage the panel to consider a flexible approach that can deliver the best outcomes for consumers.

#### **1.3.2. Governance of the ESEM administrator**

AFMA considers that the governance arrangements for the ESEM administrator should be further developed before the panel's final report. The governance structures for the Capacity Investment Scheme (CIS) and NSW's Long-Term Energy Services Agreements (LTESA) are confused and unnecessarily complicated with ASL (formerly AEMO Services) performing some roles but contracting and risk sitting with DCCEEW and the Scheme Financial Vehicle (SFV) respectively. AFMA considers that a single body with appropriate commercial and risk management skills should be created to administer the ESEM and suggests that either ASL or the SFV could perform this role. AFMA also encourages the panel to select an ESEM administrator promptly and look to engage them in the ESEM and MMO design process.

#### **1.3.3. Role of the ESEM administrator**

AFMA considers that the scope of the ESEM administrator's role and how they are expected to perform their function will have a significant impact on the market and the success of the ESEM. We suggest that policy work is required to ensure that the panel's final recommendations provide adequate guidance about how the ESEM administrator is expected to operate, particularly regarding the proposed contract recycling mechanism.

Some of the areas where AFMA considers additional detail is required include:

- a) **ESEM auctions** – how frequently will they be conducted, what periods will they cover, what information will be published about the results
- b) **Decision making** – how much discretion will the ESEM administrator have? Will they only be able to assess proposals on price or will they have discretion to consider other factors such as the appropriate technology mix and the ability of the proponent to manage delivery risk? Can they choose not to contract if they consider the offers are unfavourable? Or contract a higher volume than anticipated if offers are favourable?
- c) **Recycling** – How will the recycling process work? Will it be another auction process or is the ESEM administrator expected to be more dynamic?
- d) **Risk management** – what mechanisms will the ESEM administrator have to manage its risks? Can it restructure products or trade in other instruments to manage market risk? Is it able to hold contracts for longer or potentially to maturity if the market is not offering fair value?

AFMA considers that how the ESEM administrator is expected to perform their role will be important both to assist them to carry out this function, but also to give the market confidence about what the impact of the ESEM will be. It will likewise have an effect on the resourcing required to administer the ESEM and the cost of the scheme to consumers and therefore should be supported by clear policy direction.

#### **1.3.4. Objectives of the ESEM administrator**

Administering the ESEM will be a difficult role requiring balancing the main purpose of the scheme to promote the construction of the right mix of assets to ensure a reliable energy system while also trying to ensure that the scheme delivers good outcomes for customers by supporting the wholesale market and minimising the costs of the scheme overall. Failure to get this balance right could undermine the success of the ESEM either by not delivering a reliable system or by imposing unnecessarily high costs on consumers.

AFMA considers that the ESEM administrator should be guided by clear statutory objectives to guide its administration of the scheme. The objectives should include both delivery of an appropriate mix of new assets to support the delivery of the ESEM and minimising costs to consumers. The SFV is currently reviewing its objectives and we think the learnings from the SFV's experience should be incorporated into the panels' work.

### **1.4. MMO**

#### **1.4.1. MMO design**

AFMA thanks the panel for adopting our recommendation to include an MMO in the draft report. AFMA considers that a well designed MMO will be a useful tool to boost liquidity and price discovery in the financial market. While we welcome the inclusion of the MMO in the draft report, we consider that additional detailed design work is required between now and the final report to ensure the MMO can meet its objectives while minimising the burden on parties obliged to act as market makers and think the panel can learn from the experience of New Zealand's market making scheme. AFMA looks forward to working with the panel on the detailed design.

A key element that our members would appreciate clarity on is who the MMO will apply to and how it will apply to them. We would like to know which class of participants are likely to be required to act as market makers and the classes of products that they will be required to make a market in. We think these requirements should reflect the characteristics of the market maker's portfolio,

underlying generation assets, and be dynamic enough to reflect changes in the market maker's position. For example, a participant with an exclusively peaking portfolio might only be required to make a market in caps or market makers might have their obligation reduced when they have significant scheduled outages. Our members are particularly concerned about the risks market makers would face if required to offer narrow spreads and significant volume during volatile market conditions, as has been observed in the New Zealand scheme.

We would also like to understand how the panel intends to develop the operational requirements for the RRO, such as;

- the contracts the MMO will apply to
- the volume of contracts and the spreads the market makers must offer
- the periods the market maker must offer contract for, e.g. current month – 2 years out
- the trading windows the MMO will operate in
- when participants will be able to choose not to act as market makers
- what incentives will be provided to market makers

AFMA considers that the co-design process could be a good way to develop these requirements as it would provide a forum for market participants to provide input into what arrangements would best meet the market's needs. Our members have also suggested that the MMO should include a circuit breaker mechanism that would apply in periods of high volatility as this has been found to be necessary in the New Zealand scheme to provide market makers with some protection against extreme events.

#### **1.4.2. MMO platforms**

The draft recommendations envisage that the co-design process will determine which products the MMO obligation will apply to. Currently, products that might be relevant for the MMO are traded on listed markets and a number of OTC platforms. AFMA suggests that the regulatory regime should not limit the ability of the co-design process to designate OTC products as MMO products, to ensure that the co-design process is able to determine the most appropriate suite of products for the MMO.

#### **1.4.3. Repeal of the RRO**

Draft Recommendation 9E envisages that the Retailer Reliability Obligation (RRO) could be repealed once the ESEM and MMO are determined to be effective. AFMA supports repealing the RRO but suggests that it should be repealed when the ESEM and MMO are introduced. As discussed in our submission to your earlier consultation,<sup>1</sup> AFMA considers that the RRO is a deeply flawed mechanism that has not led to greater investment in firming capacity, as demonstrated by the need for this review. We also note that this position is shared by a broad range of stakeholders including consumer representatives and regulators. We think it is important that the RRO is repealed when the ESEM and MMO are introduced as the ESEM will remove any need for the RRO to send investment signals and it will be much simpler for the new MMO to start operating if there is no prospect that RRO's similar Market Liquidity Obligation could be triggered in parallel to it.

### **1.5. Regulatory structure**

AFMA considers that it is important that the regulatory structure for the ESEM and MMO is sufficiently flexible to allow them to evolve to respond to the needs of the market. We therefore think that only high level obligations, such as establishing the ESEM, should be in the National Electricity Law or Rules and that the majority of the ESEM and MMO obligations should be contained

---

<sup>1</sup> <https://afma.com.au/policy/submissions/2025/r10-25-nem-review-initial.pdf?ext=.pdf>

in more flexible instruments maintained by the ESEM administrator as part of the co-design process. Particularly we think that all provisions concerning the:

- development of ESEM and MMO contracts
- the conduct of ESEM tenders
- the operation of the MMO

Should be contained in these more flexible instruments. Additionally, we think the ESEM services should also be contained in a more flexible instrument than the National Electricity Rules that allows the co-design process to influence the development of these services.

## **1.6. Interaction with the DMO/ VDO**

The cost of derivative contracts are the key component of the wholesale cost of energy in the AER's Default Market Offer (DMO) and ESC's Victorian Default Offer (VDO). The panel's proposals are likely to change the types of contracts that retailers use to manage risk and could potentially lead to more contracting over longer time horizons. AFMA considers that AER and ESC's methodologies for calculating the wholesale cost of energy should be updated to reflect these changes. While AFMA does not consider that the AER is the appropriate body to coordinate the co-design process we can see that there could be benefit in them, and the ESC, being involved in the process to ensure coordination with the DMO and VDO.

### **Recommendations**

- i. The co-design framework should provide for a genuinely industry led process
- ii. The co-design process should be flexible enough to accommodate the changing needs of the market, by:
  - a) Not limiting the frequency of its decision making
  - b) Not restricting the number of contracts for any service
- iii. The co-design body should be able to make changes to the underlying services
- iv. The ESEM administrator, not the AER, should administer the co-design process
- v. The elements of draft recommendation 6B should not be mandatory for all contracts
- vi. The panel should clarify that MMO and ESEM contracts need not be the same
- vii. The panel should provide greater clarity about:
  - a) How ESEM targets will be set
  - b) If refurbished and expanded units will be able to participate in the ESEM
  - c) How draft recommendation 8C will be implemented
- viii. The panel should set out a governance framework for the ESEM administrator
- ix. The panel should provide greater clarity about how the ESEM administrator is expected to operate, including how;
  - a) auctions will be run
  - b) it will make decisions
  - c) the recycling process will work

- d) it is expected to manage risk
- x. There should be statutory objectives to guide the operation of the ESEM
- xi. The panel should provide clarity about who the MMO obligation will apply to
- xii. The co-design process should include designing the operational requirements of the MMO
- xiii. Both listed and OTC products should be eligible for the MMO
- xiv. The RRO should be repealed when the ESEM and MMO are implemented
- xv. The majority of the rules governing the ESEM, MMO and ESEM services should be contained in flexible instruments that can be changed through the co-design process
- xvi. The methodologies for the DMO and VDO should be updated to reflect the panel's contracting recommendations

## **2. Market access**

AFMA welcomes efforts to improve access to markets but cautions that making changes to AEMO and futures market credit support arrangements is complex, and we think it will be difficult for the panel to deliver implementable recommendations in limited time remaining to it. AFMA is anxious that this work could distract the panel from other workstreams that are more likely to deliver actionable recommendations.

### **2.1. Credit support**

#### **2.1.1. Derivative markets**

Credit risk within OTC and listed derivative markets has been a key focus of financial market regulators since the Global Financial Crisis. Post-crisis a series of reforms were introduced globally to manage the default of a participant in a way that limits contagion within the market based on the framework developed by the Basel Committee on Banking Supervision and the Board of the International Organization of Securities Commissions.<sup>2</sup> The reforms included introducing requirements for margining and central clearing for OTC derivatives for APRA regulated entities and encouraged the use of centrally cleared futures markets.<sup>3</sup>

These reforms imposed costs on market participants but these were considered to be necessary to limit the risk broader financial market disruption during a future crisis. AFMA considers that any changes to risk management practices in Australian derivative markets should only be made by Commonwealth Treasury in consultation with global regulators. AFMA does not support the development of separate regulatory arrangements for energy derivatives.

#### **2.1.2. AEMO**

AEMO's approach to credit support for the spot market is substantially less sophisticated than the derivative market. The arrangements are broadly unchanged since market start and are administratively complex and very costly for less credit worthy participants. AFMA considers that AEMO's credit support arrangements are no longer fit for purpose and we support a holistic review

<sup>2</sup> <https://www.bis.org/bcbs/publ/d475.pdf>

<sup>3</sup> [https://www.apra.gov.au/sites/default/files/prudential\\_standard\\_cps\\_226\\_margining\\_and\\_risk\\_mitigation\\_for\\_non-centrally\\_cleared\\_derivatives.pdf](https://www.apra.gov.au/sites/default/files/prudential_standard_cps_226_margining_and_risk_mitigation_for_non-centrally_cleared_derivatives.pdf)

of their approach to credit support in the NEM and gas markets, which could consider off-setting futures positions. That said, we think the issues involved are complex and that it is unlikely that they can be resolved in the time available to the panel, we therefore suggest that the panel should recommend that this work should be done separately, after the panel delivers its final recommendations, by an appropriate expert body.

## **2.2. Clearing brokers**

The draft report notes the findings in the ACCC's December 2023 NEM Inquiry Report that a number of small retailers had trouble accessing the futures market following Bell Potter's withdrawal from clearing electricity futures in 2022 and asks if further actions should be taken to improve small retailers market access. AFMA wants to observe that a number of new clearing participants have started clearing electricity futures since the ACCC's report was published and AFMA understands that access to clearing is no longer a substantial barrier to participating in the futures market.

### **AFMA Recommendations**

- xvii. The panel should not make any recommendations regarding derivative market credit support.
- xviii. There should be a separate holistic review of AEMO's credit support framework for both gas and electricity markets conducted by an appropriately expert body.

## **3. Other matters**

### **3.1. Extending the PASA**

AFMA supports improving transparency in the energy market, but we are not convinced that there is value in extending the MT PASA from 3 to 5 years. The PASA is a key document that provides the market with information about generation availability over the short and medium term. But we consider that three years is probably the limit to how a long a period that it can be expected to provide useful information for, additionally while generators currently provide data for three years AEMO currently only generates demand data for the first two years of the MT PASA. We also note that three years is also the longest horizon that the financial market typically trades over so we see limited benefit in extending it to 5 years. Our members consider that the greater uncertainty that exists beyond the current 3 year horizon reduces the usefulness of this information and they are concerned that it would not be appropriate for policy makers or market bodies to rely on it as an appropriate indicator of future market outcomes.

As noted in the draft report, the MT PASA is compiled using data provided by market participants about the availability of their assets. The data is largely driven by maintenance plans which become less certain the further into the future the generator is required to project. As noted in the draft report the quality of data is generally very high in the first year but drops in the following years with year three regularly mirroring year two. AFMA suggests that this reflects that maintenance plans will typically be very firm for the next 12 months but become less certain in the second year and more like educated guesses in the third year. We think that the data that is currently provided for the current 3 year outlook is probably close to as good as the market can provide and that extending the MT PASA further is unlikely to be useful as the data will become less and less reliable. Our view is that beyond a three year horizon the only key piece of information units can provide is their nominated closure date, which we note is currently provided under the notice of closure arrangements.

### **3.2. Inter-regional hedging**

Recommendation 9C proposes that the AEMC should conduct a review of inter-regional hedging arrangements. AFMA supports the panel's proposal to consider options to ensure inter-regional hedging is appropriate to support increased volumes of variable renewable energy but we do not think the AEMC is an appropriate body to undertake this work. The AEMC has been working on an AEMO rule change to make changes to the inter-regional settlements residue auction to accommodate the commencement of the Project Energy Connect interconnector since early 2024.<sup>4</sup> The industry has found this rule change process profoundly frustrating as the AEMC has struggled to develop a sound understanding of the settlement residue auction and the fundamental role inter-regional hedging plays and appears to see the current arrangements as a wealth transfer from end users to market participants.

We consider that the AEMC's lack of understanding of the subject matter led to unnecessary delays to the rule change process and we anticipate a very poor final decision that is likely to undermine the inter-regional trade to the detriment of consumers.<sup>5</sup> As a result the AEMC's position does not appear to align well with the panel's intent to strengthen inter-regional hedging arrangements to support longer term investment decisions. We therefore recommend that the AEMC should not be involved in any review of inter-regional hedging and that it should be done by an appropriately skilled body, drawing on the expertise of the market and AEMO. If the panel considers the AEMC is the appropriate body to do this work, we advise that the terms of reference should be written carefully to ensure that their review recognises the value of inter-regional hedging to the market and end customers.

### **3.3. Trading behaviour**

AFMA appreciates that the use of automated bidding systems presents new challenges for regulators, but we would appreciate some clarity about the scope of recommendation 4A to clarify if the review will only apply to automated bidding behaviour or if it is intended to look at the increasing in rebidding generally, that the panel has observed has occurred since the introduction of 5 minute settlement in 2021. Our members' view is that the increase in rebidding is the natural consequence of the combination of the move to settlement, the increasing volumes of variable renewable and batteries in the NEM and are unsure of the merits of a review.

Additionally, we are unsure why the panel is recommending the ACCC should be involved in this work. AFMA has observed that there has increasingly been confusion about the role of the various regulatory bodies in the energy sector particularly with the ACCC's functions under both their NEM and Gas pricing inquiries overlapping with the functions of the energy specific regulators. Our members have noted that the lack of clear delineation between the roles of energy and general regulators has led to inefficient duplication and increased compliance costs. We are therefore very cautious about involving the ACCC in the energy sector and generally consider that the AER is the appropriate regulator for the sector.

### **3.4. Planning and operation**

AFMA supports the panel's recommendations to increase the visibility of non-scheduled assets in principle but is concerned that a poorly designed mechanism may deter participation of non-scheduled assets in the market. We note that the Integrating Price-Responsive Resources into the NEM rule change is not yet fully implemented, and question the value of further changes before the impact of this change is known. Any future reforms must strike an appropriate balance between

---

<sup>4</sup> <https://www.aemc.gov.au/rule-changes/inter-regional-settlements-residue-arrangements-transmission-loops>

<sup>5</sup> <https://afma.com.au/policy/submissions/2025/r39-25-pec-directions-paper.pdf?ext=.pdf>

improving visibility of resources and avoiding burdensome obligations (designed for conventional generators) that could limit efficient operation (and growth) of virtual power plants.

AFMA supports the panel's recommendation to look at mechanisms to minimise the market impact of transmission outages.

### 3.5. Snowy Hydro

AFMA was confused by the discussion of Snowy Hydro potentially playing a role in to "kickstart" contract recycling under the ESEM. We want to observe that while Snowy Hydro is owned by the Commonwealth Government, similarly to other units that are owned by state governments, it operates as a commercial entity in the market, and it is unclear why it should be expected to perform any function that other market participants are not required to.

Additionally, it is also unclear to AFMA what the panel anticipates Snowy Hydro would do. As we understand it, the ESEM is intended to facilitate the construction of new assets not to be a vehicle for issuing contracts from existing assets. As a market participant, we would expect that Snowy Hydro may choose to participate in the ESEM to build new assets but it is unclear how it would differ from any other participant in this capacity. We also want to note that while Snowy Hydro does have substantial peaking capacity it is not unlimited, and it is unrealistic to expect that it could somehow "kickstart" the ESEM by issuing additional contracts backed by its existing assets.

#### AFMA Recommendations

- xix. The MT PASA horizon should not be extended.
- xx. The AEMC should not be involved in any review of inter-regional hedging and any review should be done by an appropriately skilled body drawing on the expertise of the market and AEMO.
- xxi. The panel should clarify if recommendation 4C is limited to reviewing algorithmic bidding.
- xxii. The ACCC should not be involved in any algorithmic bidding review as the AER is the body better placed to do this work.
- xxiii. AFMA does not consider that Snowy Hydro should perform any role under the ESEM different to other market participants.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me at [lgamble@afma.com.au](mailto:lgamble@afma.com.au) or 02 9776 7994.

Yours sincerely,



Lindsay Gamble

**Head of Energy and Carbon**