SUBMISSION

MARKET MAKING REQUIREMENTS IN THE NEM | OCTOBER 2018

EUAA
Energy Users Association of Australia

INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined they employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items. We welcome the opportunity to make a submission to the ESB on Market Making Requirements in the NEM.

The debate around the competitiveness of the NEM has continued for many years. Consumers claim that generators have been "manipulating" the market and generators respond that they are "operating within the rules". Change have been introduced eg "good faith bidding" rules in 2015 that were designed to address the perceived market manipulation. Consumers argue that the changes have had little impact of generator behaviour, generators again argue "they are operating within the rules of an energy only market". There is back and forth debate around what are the factors contributing to rising wholesale prices with the AEMC[1] recently taking issue with the Grattan analysis[2] of the contribution of "gaming".

It is understandable that consumers feel very frustrated. Our members have ridden the rollercoaster that is the SA power market over recent years – and the difficulty in getting hedges. This is well documented in the recent ACCC Electricity Report[3] - increased concentration and vertical integration has led to wholesale power prices that are consistently at or near the highest in the NEM (p.48) and forward prices indicate this situation will continue for some years (p.49). It is only the return of Pelican Point and the commissioning of the Hornsdale Power Reserve that there has been some reduction in wholesale and FCAS prices (p. 87).

However, the dramatic lowering of renewables generation costs has given consumers a choice to reduce their reliance on NEM supply. Corporate buyers, including EUAA members, are now taking advantage of this as they enter into corporate PPAs with renewables developers (or developing renewables themselves) and seeking to bypass the NEM. The South Australian Chamber of Mines and Energy's strategy of joint electricity purchase by some of its members from SIMEC ZEN Energy is a specific example of the response of SA C&I customers.

Given how our members have had to cope with the lack of hedges in the SA market we strongly support the implementation of Recommendation 7 from the ACCC Inquiry – in particular the introduction of a market making obligation for SA generators.

RESPONSE TO SPECIFIC QUESTIONS

Rather than respond to each specific question, the EUAA presents its views on some of the issues raised in the ESB's Consultation Paper:

Triggering the market liquidity obligation

- Given the great difficulties experience by our members in obtaining competitive hedge quotes we would like to see the MLO begin as soon as possible
- We support having a liquidity test in the MLO design, while acknowledging the difficulty as highlighted by the ACCC Inquiry (p.113) in setting a metric. We agree with the qualitative approach proposed by the AEMC and cited by the ACCC (p.113) that would characterise a liquid wholesale market as:
    - no single transaction being likely to move the price excessively

[1] AEMC "Gaming in rebidding assessment – Grattan Response" Final Report 28th September 2018
[2] Grattan Institute "Mostly Working – Australia's wholesale electricity market" 1st July 2018
[3] ACCC "Restoring electricity affordability and Australia's competitive advantage - Retail Electricity Pricing Inquiry—Final Report"

- individual trades that are able to be easily executed
- an ability to trade large volumes of energy in a short period of time
- a market that can recover towards its natural equilibrium after being exposed to a shock.

We have concerns about the proposed measure:

> "…total exchange traded volumes and OTC trades for products in a region measured against total electricity demand over a specified period."

because of the difficulty in getting comprehensive data on OTC trades and particularly because of the relatively higher incidence of OTC trades in South Australia. As the ACCC noted (p.

> "The ACCC considers that the lack of transparency in the OTC market impedes the transmission of price signals in the market, and introduces uncertainty for participants and policy makers."

We would propose only exchange trade volumes as the measure. We may change this view if the ACCC proposed registry of OTC trades were established. Exchange traded contract volume in South Australia this would then be measured against a benchmark of the average for Queensland, NSW and Victoria.

- We support the incorporation of a liquidity test into the MLO. We agree with the ESB proposal that the MLO cease to operate when the updated AEMO forecast indicates that the material gas closes.

- We agree there are there are risks around an "on again, off again cycle" and suggest that once triggered it should stay on for at least two years.

Identifying obligated parties

- We support Option 1 – set number of participants per region and the generator concentration method is registered capacity by corporate ownership and/or access to trading rights. This latter measure encourages generators to ensure maximum availability and reduces their ability to influence market share calculations. This would include both scheduled and de-rated semi-scheduled generation.

Market making requirements

- We agree that contracts should be made available on a centrally cleared platform
- We support the market making obligation to cover EXT caps and futures
- There is a case for parcels smaller than 5MW - suggest at least 1MW parcels. This is not only for smaller consumers, but also for those consumers who seek to manage their risk with a portfolio approach eg their total demand may be >5MW but they seek to take out a range of hedges of <5MW for different time periods
- We support requiring bot bid and offer prices and would suggest, on the basis of the actual data provided for 2016-18, that a tighter spread that 5% is appropriate eg 3%
- Market making bid/offer should at least cover the next calendar year + 1 year ahead by quarter
- The platform should be the ASX
- We can understand having the total trade obligation related to a generator's share of regional generating capacity.
- We support the inclusion of appropriate safeguards for obligated participants.

Satisfying the obligations

- We support the AER paying the compliance role and that it has the powers to require the obligated party to provide whatever information is required for the AER to fulfil its role. Given the lack of detail provided on how third-party assurance may work in practice, we support the AER only relying on direct information from the obligated party.

Andrew Richards
Chief Executive Officer