



Mr Prabpreet Calais
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

23 May 2019

Dear Mr Calais,

RE: National Electricity Amendment (Short term forward market) Rule 2019 Consultation Paper ERC0259

ENGIE in Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the consultation paper on the short-term forward market rule (“the Consultation”) as submitted by the Australian Energy Market Operator (AEMO).

ENGIE is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 700,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Many questions to be answered

ENGIE notes that the proposal in its current format remains very high level. Key design issues to be determined include:

- the products that would be on offer;
- to what extent the market is integrated into AEMO’s existing platforms, prudential requirements and settlement processes; and
- AFSL implications including whether an exemption is sought (for AEMO and to maximise potential participation).

Accordingly, it is difficult at this stage for stakeholders to evaluate the costs and benefits of a short-term forward market and further work would be required to develop a specific proposal (or some options). Generically, if a market attracts multiple buyers and sellers then it is meeting a need and is likely to provide a net benefit. Conversely if it does not, then the cost of setting up the market will likely outweigh the benefits. While this will





only be evident after implementation, an important next step is to better understand the likely demand for participation in the market and that this encompasses both buyers and sellers.

Limited evidence of demand for a short-term market

To date, there have been some OTC trades of shorter-term products; however, it is ENGIE's understanding that these are very low volumes. The AEMC may wish to investigate whether there are potential participants who are not trading in this existing market what the apparent barriers are, and whether those barriers would actually be resolved by the introduction of an AEMO-run platform. A trading exchange does have different characteristics from the bilateral, bespoke OTC market, and as the AEMC notes, other ASIC-licensed exchanges such as the ASX and FEX could offer short-term products if they perceived sufficient demand.

The relative lack of existing trades of shorter-term products casts some doubt on whether an AEMO-run exchange would attract sufficient liquidity to be efficient. Further the public responses of market participants to previous consultation processes canvassing interest in short-term markets does not suggest widespread interest. While some respondents to the AEMC's Reliability Frameworks Review expressed support for such a market, these were mostly on the demand side (large energy consumers and their representatives) and in some cases, this support was for a mandatory North American-style forward market¹. Accordingly, it is not clear whether these parties would support a voluntary financial short-term market.

In any case there was a notable lack of support from the supply side, even though many generator participants have gas plants and/or variable renewable plants in their portfolio – these being the plant types the Consultation suggests may benefit from short-term trading opportunities. In the case of variable renewable plant, the prevalence of long-term government support mechanisms aimed at de-risking new developments (such as VRET) may obviate the need for other risk management tools.

The existence of sufficient unmet demand for short-term trading products to cover AEMO's costs should be a threshold test. Non-participants in this market should not be obliged to pay for it through their general NEM fees. To the extent that AEMO can utilise existing trading platforms and integrate easily into existing settlement and prudential processes (the implications of which must be worked through), this may be a relatively low threshold. Nonetheless, the mere existence of a market is not enough to attract a sustainable volume of trade, as indicated by the experience of the Moomba Gas Supply Hub to date.

Implementation costs and risks

As noted above, the genesis of this rule change appears to be the Reliability Frameworks Review, which in turn was responding to a recommendation in the final report of the *Independent Review into the Future Security of the National Energy Market – Blueprint for the future* that the suitability of a day-ahead market be assessed. This report noted that "For the NEM, any further consideration of a day-ahead market would require detailed cost-benefit analysis, including in relation to the nature of changes to the existing real-time and contract markets,

¹ See for example, submissions to the Directions Paper from BlueScope, CSR and the EUAA



impacts on market participants, and the implementation costs”². ENGIE agrees that this analysis is necessary in order to determine whether the introduction of an AEMO-run short-term forward market would contribute to the achievement of the NEO. The impact on participation in other markets is an important consideration – AEMC should seek to understand whether contracting in this market would lead to lower contracting levels in the existing financial markets and what the overall price impact is likely to be if so.

A further risk to participants that has emerged since the reviews above were published is the planned introduction of a requirement for larger market participants to undertake mandatory market-making to improve liquidity. While the prospect is not canvassed in the Consultation Paper, AEMC should consider what reassurance it can offer to participants that in the event AEMO does set up the market but it trades thinly, mandatory market-making is not seen as a remedy.

Should you have any queries in relation to the attached proposal please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Jamie Lowe".

Jamie Lowe
Head of Regulation

² Independent Review into the Future Security of the National Energy Market – Blueprint for the future, p103