



F2019/000227

29 August 2019

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

***Draft Rule Determination - National Electricity Amendment (Market Making Arrangements in the NEM) Rule 2019 (ERC0249)***

Dear Mr Pierce

Thank you for the opportunity to provide comments on the AEMC's Draft Rule Determination not to introduce new rules enabling Market Making Arrangements in the NEM.

As noted in our submission to the Consultation Paper in February 2019 and based on evidence in various publications including by the Australian Competition and Consumer Commission (ACCC), the Australian Energy Regulator (AER) and the AEMC itself, the Division is concerned that there is lack of liquidity in South Australia's wholesale contract market and the impact of this on retail competition.

The Division therefore appreciates the thorough assessment of South Australia's market conditions undertaken by the AEMC as part of the rule change consideration. The result shows that South Australia faces unique structural characteristics that contribute to the lack of liquidity compared to other regions and that implementing market making arrangements may not, alone, solve the liquidity challenges in South Australia.

Based on the commencement of the ASX market making scheme and introduction of the Market Liquidity Obligation (MLO) under the Retailer Reliability Obligation (RRO) from July 2019, the Division notes the AEMC's recommendation not to make additional market making arrangements in the NEM and that the outcomes of these new arrangements need to be seen before imposing any additional requirements.

However, the Division has some reservations about whether the new arrangements will achieve the intended outcomes and improve South Australia's lack of liquidity. As

the draft rule determination states, any improvements in liquidity achieved by the ASX scheme is dependent on the compliance of market makers with the scheme's requirements. Until this is tested, there is a level of uncertainty about whether improved liquidity will be realised in practice. The structural issues identified in South Australia are unlikely to disappear in the near future and therefore if the schemes are not effective in improving liquidity here, South Australia may need to re-evaluate the ACCC's recommendation to introduce a mandatory market making service, even on a trial basis, to operate in South Australia.

Given these uncertainties, the Division strongly supports the AEMC's recommendations relating to addressing information gaps in the wholesale contract market and the AER's monitoring functions.

In terms of addressing the information gaps, the Division strongly supports the AEMC's findings that the Australian Financial Markets Association (AFMA) survey should contain contract price information, that it should be expanded to include products not currently covered and that the survey becomes a monthly requirement rather than annual. Given that addressing these information gaps is a crucial tool to improve transparency and thereby liquidity, this work needs to be done as a priority and, if possible, implemented quickly. Accordingly, the Division strongly supports the AEMC's recommendation that the uncertainty of whether these additional requirements can be included in the AFMA survey must be addressed before the end of 2019. If they cannot, alternative methods including possibly progressing further with the ACCC's recommended OTC repository should be considered.

The Division also strongly supports the AEMC's recommendation that the AER monitor the compliance of market participants in the market making schemes. In view of the uncertainty of the outcomes of the schemes, the Division recommends that there should be a review of the impact of the schemes on liquidity after a period of two years. If the review shows that liquidity has not improved in South Australia, reconsideration of a mandatory market making trial here could be progressed as originally proposed by the ACCC.

Furthermore, noting the high level of vertical integration in South Australia, the Division also strongly supports the AEMC's recommendation that large vertically integrated participants report information to the AER relating to internal and external contract pricing and conditions and on contracting volumes compared to generation availability and capacity.

Finally, the Division also notes that while South Australia's structural characteristics are unique, it is conceivable that at least some of our experiences, and especially those relating to intermittent renewable generation, could repeat in other NEM regions as they transition to low carbon economies. Monitoring the outcomes of the new schemes as they operate in South Australia is therefore critical as South Australia will act as a test case for the possible future experience of other regions.

Should you wish to discuss the submission in further detail, please contact Mrs Debbie Wielgosz, Senior Policy Officer, on (08) 8429 3352 or Mark Pedler, Principal Policy Officer, on (08) 8429 3361.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Vince Duffy', with a stylized, cursive script.

**Vince Duffy**  
Executive Director  
Energy and Technical Regulation  
Department for Energy and Mining