

Your Ref: ERC0249
Contact Officer: Peter Adams
Contact Phone: 03 9290 1465

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

Dear Mr Pierce

Draft Determination—Market making arrangements in the NEM

Thank you for the opportunity to comment on the *market making arrangements in the NEM* Draft Determination. We welcome the AEMC's work on this rule change request, and support the Commission's decision not to make a draft rule.

As stated in our submission to the Consultation Paper, we consider the proposed market making scheme would be unlikely materially to increase incentives for large, vertically integrated firms to offer contracts in the electricity contracts market.¹ We remain of the view that the costs associated with implementing the proposed market making arrangements would likely outweigh any additional benefit in contracts market liquidity that may accrue.

With the recent implementation of the ASX electricity futures market making scheme and the Retailer Reliability Obligation (RRO), we consider any incremental benefits of the proposed voluntary market making scheme would likely be minimal and not cost-effective.

The Draft Determination proposes specific measures that the Commission considers should be undertaken by the AER, including monitoring participants' compliance with the requirements of the ASX scheme and the RRO.² Although the AER now has the necessary powers to monitor compliance with the RRO, it does not have comparable powers to monitor the contracts markets as part of the ASX market making scheme or similar schemes.

Need for enhanced AER market monitoring and reporting tools

In the Draft Determination, the AEMC also identified the need for new AER market monitoring and reporting tools,³ and expressed its commitment to work with the AER to develop the legislative changes needed to monitor the wholesale markets effectively.

We support this observation and consider that expanding the scope of AER market monitoring to include the contracts market, among other matters, is vital to the agency's work to assess the effectiveness of competition in the wholesale markets. We look forward to working closely with the AEMC to progress these reforms.

¹ AER, *Submission to the AEMC: Rule change—Market making arrangements in the NEM*, 28 February 2019.

² AEMC, *Market making arrangements in the NEM*, Draft Determination, 27 June 2019, p. v.

³ AEMC, *Market making arrangements in the NEM*, Draft Determination, 27 June 2019, pp. v-vi.

We thank the AEMC for the opportunity to comment in the assessment of this rule change request. If you have any questions about this submission, please feel free to contact me on 03 9290 1465.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Peter Adams', is positioned above the typed name and title.

Peter Adams
General Manager, Market Performance
Australian Energy Regulator

8 August 2019