



Our ref: 64737
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7 February 2019

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

Consultation on market making arrangements

Thank you for the opportunity to provide comment to the Australian Energy Market Commission's (the AEMC) public consultation on market making arrangements in the National Electricity Market (NEM).

As the AEMC notes in its consultation paper, the ACCC raised concerns about contract market liquidity in its Retail Electricity Pricing Inquiry Final Report (REPI), especially in South Australia, and recommended the introduction of compulsory market making obligations in South Australia. The ACCC's recommendation also suggested that the efficacy of the obligations be reviewed after a period of two years, with a view to either maintaining the obligations (and possibly expanding them to other NEM regions), amending or discontinuing them should they prove to be ineffective.

The ACCC continues to consider the lack of contract market liquidity in South Australia a significant concern that is likely impeding retail competition in the state.

The ACCC also notes that, with the introduction of the Retailer Reliability Obligation (RRO), access to appropriate contracts will become even more critical for retailers, especially smaller and standalone retailers, during periods when the RRO has been triggered. Market making obligations should be sufficiently robust to maintain adequate supply of contracts into markets even when there may not be sufficient commercial incentive for such supply.

The ACCC therefore welcomes the AEMC giving full consideration to the proposed market making schemes through this rule change proposal.

The ACCC notes the voluntary market making schemes proposed by the ASX and ENGIE have the potential to be implemented in a shorter timeframe than compulsory obligations.

However, the ACCC has strong reservations about the ability of voluntary schemes on their own to be effective in addressing the concerns we expressed in REPI.

The ACCC has not been able to review any design details of the ASX scheme and so cannot provide any specific comments on whether it is likely to resolve our concerns in the contract market.

The ENGIE proposal provides for the AER to design and monitor the market making services to be tendered. A tender for services in which successful tenderers have appropriate incentives to supply market making services, including appropriate penalties for failing to supply the services, may result in an increase in the supply of contracts which could assist with liquidity concerns. However, it is difficult to predict the outcome of the tender, and, while ENGIE's proposal for a tender would at least be an effective mechanism to determine whether low-cost suppliers of market making services exist, it is not clear that it would result in effective market making services being procured.

As noted above, the ACCC has strong concerns about relying on voluntary market making schemes. Contracts are a critical input for standalone retailers and new entrants to manage their exposure to wholesale market volatility. Analysis in REPI showed that the low levels of contract market activity in South Australia have acted as a barrier to entry in that state. The contract market will take on even greater importance when the RRO is implemented, as it will be the primary market through which retailers will comply with their obligations. Should voluntary market making obligations fail to be effective in these critical situations, the consequences for retail competition will be significant.

For these reasons, the ACCC considers that compulsory market making obligations are likely to be necessary in future, at least in particular situations such as when the RRO is triggered. The ACCC supports the AEMC continuing to develop compulsory market making obligations, to ensure that such mechanisms are available to be implemented in critical periods (or when voluntary schemes prove inadequate). It will also be important that the AEMC works to ensure that compulsory market making obligations are designed in such a way to deliver the greatest benefit to customers.

The ACCC is willing and able to provide further information and to work with the AEMC on the issues outlined above.

If you have any questions in relation to this submission, please contact Lyn Camilleri, General Manager Electricity Markets Branch, on (03) 9290 1973.

Yours sincerely



Rod Sims
Chair