ASX

Submitted via email: commodities@asx.com.au

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Submission to the ASX Australian Peak Load Electricity Futures Contract Changes – Consultation paper

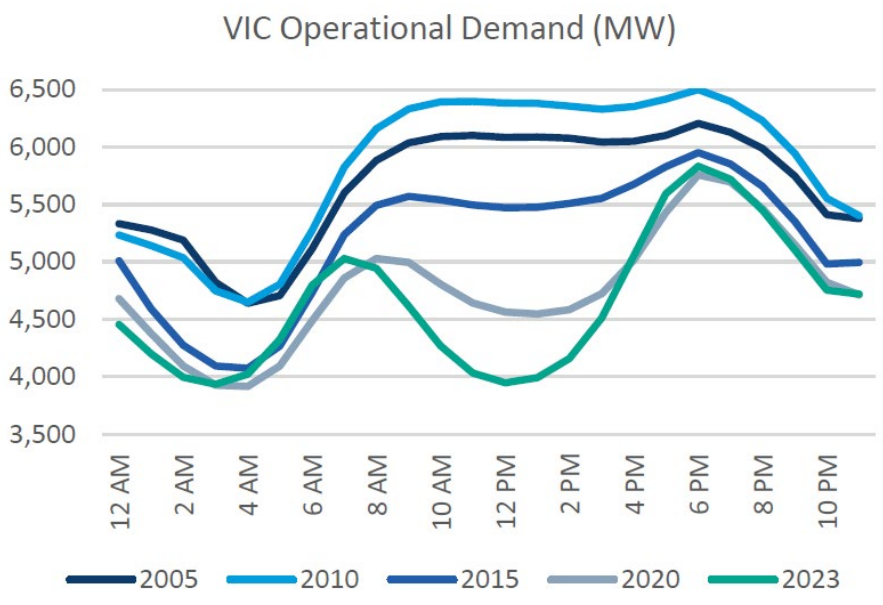
The Australian Energy Council welcomes the opportunity to make a submission to the ASX Australian Peak Load Electricity Futures Contract Changes – Consultation paper (Consultation paper).

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Overview

For years market participants have observed the 'duck curve' becoming increasingly pronounced primarily due to massive uptake of rooftop solar PV (see Figure 1). This is also increasingly manifesting itself through negative daytime prices particularly in SA and Victoria.

Figure 1



Source: Consultation paper

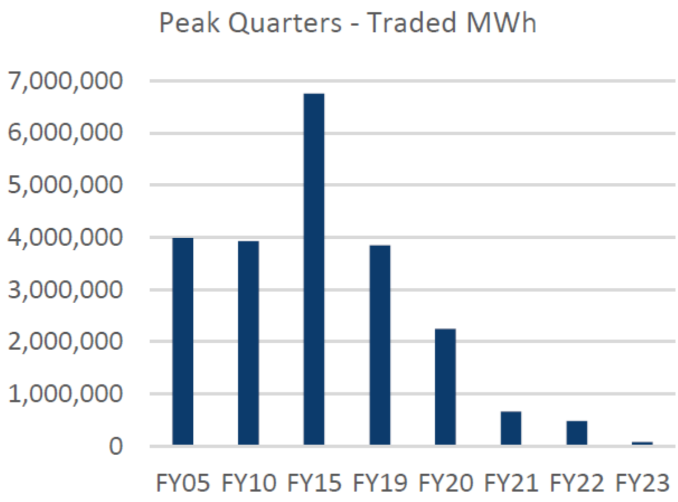
Figure 2 illustrates the steady decline in peak quarters traded in MWh. Based on this data, the AEC believes the ASX could be a little more proactive when it comes to new product development and perhaps this process could have commenced in FY2022.

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 92 608 495 307

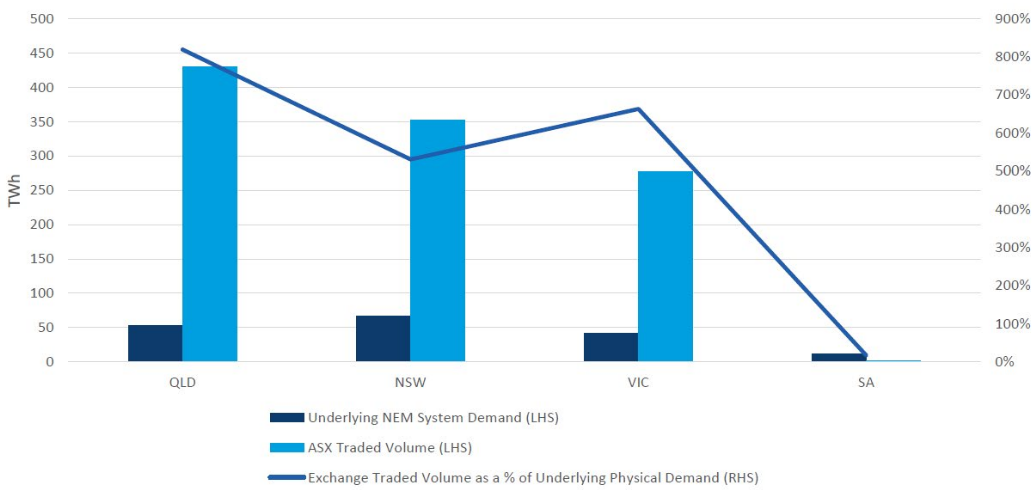
Figure 2



Source: Consultation paper

SA is notoriously illiquid market (see Figure 3) and the AEC hopes that the proposed new contracts might improve this situation. It would be interesting if as part of this process the ASX could engage with participants to see if this may be the case.

Figure 3: Liquidity by Region ASX traded volume compared to physical market FY2023[1]



Questions and responses

Which peak load profile (Option 1 or Option 2) is your preferred option and why?

In the interests of addressing the issue as rapidly as possible, the AEC supports Option 1 as it would create the most liquid product. However, as we will comment further we believe it should be two separate products, morning and evening and that the ASX should commence work on developing the morning product once Option 1 has been implemented.

Do you agree with the proposed contract specification for your preferred profile as presented?

The AEC considers the evening peak component of the contract may be too short at 4 hours from 4pm to 8pm Monday to Sunday – Australian Eastern Standard Time (AEST) and believes further consideration should be given to extending this to 9pm or 10pm. Apart from this the AEC supports all other aspects of the contract specification.

[1] Australian Electricity Market Overview Energy Derivatives Financial Year 2023

Level 14, 50 Market Street
Melbourne 3000
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W energycouncil.com.au

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Are there any other contract specification changes that would make the product more desirable for trading and as a hedging tool?

The Consultation paper raises the possibility of Option 2 being less liquid than Option 1 because:

"the morning operational demand peak is smaller than the evening operational demand peak and the average (settlement) price per MWh across the morning evening period is generally lower than the evening only period"

This appears to be a reasonable assertion although the level of materiality is uncertain. The AEC believes consideration should be given to having two separate contracts, a morning peak and evening peak with priority being given to introducing the evening product. Electrification of heating and other gas load, most notably in Vic could see strong winter morning peak demand outcomes. It could be that whilst trading in a morning peak contract in summer is weak, it is expected to be stronger in winter, noting that the impact of solar in winter is both weaker and later in arriving.

Do you foresee the peak demand profile changing again in response to generation and storage developments (e.g. battery storage) or other factors such as electric vehicles etc.? If so, when would you expect this to materially change the proposed peak demand profile?

While forecasting the future is fraught, the AEC believes in markets and if they are allowed to operate without intervention and interference optimal outcomes will be achieved. Hence, the increasing frequency of negative prices during the solar profile is likely to encourage energy users to take advantage of this opportunity. Furthermore, increasing numbers of EVs, home batteries and utility scale storage are also likely to take advantage of these periods when energy has nil or negative scarcity value. Ultimately, we may start observing a reversal of the current 'duck curve' trend as operational demand during the solar profile increases. This may emerge across the winter months initially before progressing to an all-year outcome.

Nevertheless, in spite of the possibilities outlined above, the AEC believes there will most likely be an increasing ramp up of operational demand particularly in the evenings and to a lesser extent in mornings. Although as noted above, over time the winter morning ramp from the overnight trough to the morning peak demand is likely to intensify.

Implementation of changes

What is the minimum notice period you require to manage open positions?

If the ASX's proposed approach is adopted, the AEC's position on this is that the ASX should engage with the affected parties and negotiate an acceptable timeframe for closing out positions. However, whether or not the proposed approach or the alternative of creating a new contract and allowing existing contracts to roll off is the most appropriate is a matter for our individual members. And in principle if their preference is the latter, then the AEC would support letting the existing peak contracts stand and naturally roll off.

Can you foresee any potential consequences of updating the product specification of the existing contracts, i.e. keeping the same commodity codes? If so, please provide details of the consequences in your response.

No other than as noted in the Consultation paper this will make for a faster implementation. However, the pace of implementation needs to be balanced with an adequate notice period for affected parties if forced close it implemented by the ASX.

Other Considerations

Do you foresee any unintended consequences as a result of any of the proposed changes?

The AEC believes that the new product (s) should be entirely new super peak periods contracts and not named as a peak contract to avoid confusion with standard OTC peak period contracts. The new periods must have a dedicated and descriptive name.

Is there anything else that you would like to raise for consideration?

The AEC would like to see the ASX become more innovative and explore potential new products in a timely manner as the NEM continues to evolve.

Questions can be addressed by e-mail to peter.brook@energycouncil.com.au.

Yours sincerely,

Peter Brook
Wholesale Policy Manager
Australian Energy Council