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Submitted online to: <https://www.aemc.gov.au/rule-changes/market-making-arrangements-nem>

Dear Mr Pendlebury,

Market Making Arrangements in the NEM
Reference: ERC0249

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission’s (“**AEMC**’s”) *Market Making Arrangements in the NEM Draft Rule Determination*.

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Discussion

The Energy Council notes the work the AEMC has conducted to assess liquidity in the various National Electricity Market (“**NEM**”) regions, and acknowledges South Australia’s lower liquidity compared with the other NEM regions – but notes the AEMC’s observation that while liquidity may be observed using various metrics, there is no clarity about what constitutes acceptable liquidity. Furthermore there may be a range of risk management products and mechanisms used by counterparties which would be equivalent to those products included in the suggested metrics, but which would not be directly captured and hence not reported as liquidity.

The AEMC’s discussion on the structural conditions impacting liquidity is also supported, and the Energy Council agrees that all regions of the NEM are undergoing change from conventional generation to a preponderance of variable renewable energy. It is expected that market signals in the form of spot prices and ancillary services prices will encourage the market to change to meet the demand for energy and related services, and infrastructure construction, such as Project EnergyConnect (aka RiverLink), will also change market dynamics.

The nett benefit of introducing market-making schemes is important in assessing whether any rule change is justified, and the Energy Council acknowledges the work by NERA Economic Consulting which the AEMC has commissioned to inform its deliberations.¹ This work showed nett benefits for the proposed rule change, absent any other mechanisms, being comparable to the ASX Energy voluntary scheme,² but concluded that with the introduction of the ASX Energy scheme and the Market Liquidity Obligation, the proposed rule change would be marginally detrimental,³ due to the increase in regulatory and monitoring costs.

¹ NERA Economic Consulting, *Costs and Benefits of Additional Market Making in the NEM*, 24th May 2019

² *ibid.*, Table 5.6, p.57

³ *ibid.*, Table 5.7, p.59

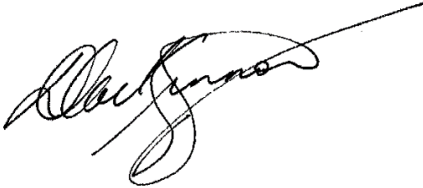
Conclusion

As the Energy Council submitted to the original consultation paper,⁴ with the power system in regulatory and commercial transition, and with the introduction of the ASX Energy's voluntary scheme (which started on 1st July), it appears that the need for imposing market-making rules in the NEM is unnecessary.

On this basis the Energy Council supports the AEMC's draft decision not to make a rule.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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⁴ Available at <https://www.aemc.gov.au/sites/default/files/2019-02/Rule%20Change%20SubmissionERC0249%20-%20Australian%20Energy%20Council%20-%202020190207.pdf>