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Submission to Market Making Requirements in the NEM

AGL Energy (**AGL**) welcomes the opportunity to comment on the Energy Security Board's (**ESB**) Market Making Requirements in the NEM consultation paper (**Consultation Paper**).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia.

AGL is supportive of improving market liquidity. We have experience in different mechanisms for providing contracts to the market and are currently participating in the following initiatives:

- As part of AGL's acquisition of Macquarie Generation, we provided an undertaking to make 500MW of baseload contracts available to competitors in every trading interval.
- AGL is participating in the ASX tender process for market making in the NEM. Depending on the outcomes of the tender process, the ASX may enter into agreements with various participants to make base load quarter products available in Queensland, New South Wales, Victoria and South Australia.

In addition, members of the Australian Energy Council (AEC) Wholesale Working Group (which includes AGL) have begun considering an industry led market making obligation that could complement existing mechanisms.

However, AGL considers it vital that where generators are reliant on fuel supply, a market making obligation should be introduced alongside a similar obligation for supply of that fuel. Generators should not be expected to offer contracts if they are unable to access fuel (or transparent prices for fuel) to deliver those contracts in a tight market. If gas generators in South Australia are obliged to participate in a market maker, it will be vital that gas producers also be required to offer price transparency and a certain amount of gas into that market.

Leverage the existing market makers

The landscape has changed since the ACCC recommended that a market maker be introduced in South Australia, which led to the ESB investigating a market maker for the NEM. AGL's strong preference is that the ESB leverage the market making processes that now exist (particularly the ASX tender process), instead of creating a new mandatory requirement.

The ASX tender process is voluntary, however the right incentives exist for it to be successful. The ASX is incentivised to offer market making and increase the volume of trades through its facility. Industry members



are also incentivised to participate in the tender process to take advantage of the fee discounts that will apply if successful, and to avoid government regulation.

AGL notes that voluntary participation through a tender process is likely to lead to better bids and offers being provided, compared to mandatory participation of selected generators. A voluntary tender process identifies willing participants at the best price.

Also, leveraging off the ASX market maker will help to minimise compliance costs. Participants have already developed systems to integrate with the ASX, to enable the ASX to complete auditing of trades. If a separate and mandatory process is implemented it may result in unnecessary and duplicative compliance requirements.

A separate market maker for the NEM

Should the ESB decide that a mandatory market making process be introduced, AGL makes the following comments:

1. Voluntary market making should satisfy the mandatory requirements. Reputable third parties should be able to make assurances regarding compliance. For example, the ASX auditing process is robust and could be relied upon.
2. The selection of obligated parties should be based on forward looking sizes or market shares, to better align with the contracting to be offered.
3. The product design should be as similar as possible to existing market making processes, to minimise the administrative burden and assist with the ESB being satisfied that voluntary requirements may be used to satisfy the mandatory requirement. AGL understands that the ESB is familiar with the ASX product design.
4. The ESB should carefully consider how the market making mechanism will play out under all the circumstances in which external factors impact the ability of market makers to provide contracts. AGL suggests that the market making mechanism be suspended in these circumstances. Some of the scenarios that will need to be thought through could include: physical constraints (such as a fuel shortages); sudden changes in supply and demand; market directions, suspensions and interventions; PASA changes (as the market maker may be considered to have inside information); and regulatory announcements.

In conclusion, AGL considers the introduction of a mandatory market maker is no longer necessary given the work of the ASX to introduce a market maker over the last few months.

AGL considers the most cost-effective course of action would be to allow the ASX process (and potentially the AEC process) to provide bids and offers to the market and determine whether this improves market liquidity. Should these initiatives be unsuccessful, the issue may not be the making of bids and offers, and further investigation may be required.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

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