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Submitted via email:
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OTC Transparency in the NEM

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Energy Security Board's (**ESB**) *OTC Transparency in the NEM (the consultation paper)* which addresses recommendation 6 of the ACCC Retail Electricity Pricing Inquiry (June 2018).

Alinta is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,070MW of thermal generation facilities, and more than 1.1 million electricity and gas customers including more than 550,000 in east coast markets.

The diversity of Alinta's portfolio, its investment strategy, product offerings, and first-hand experiences in trading wholesale electricity products across Australia mean Alinta is well placed to provide informed comment in response to the consultation paper.

Alinta notes the proposal to establish an Over-the-Counter (**OTC**) trade repository where data would be stored for the purposes of increasing transparency and removing uncertainty for both participants and policy makers as well as the monitoring of financial contagion within the National Electricity Market (**NEM**).

Alinta supports increased transparency in the NEM

Alinta has long supported the principle of increased transparency within the NEM and considers that incremental enhancements to information disclosure are likely to improve pricing efficiency and risk management. To that end, Alinta currently contributes to a wide variety of wholesale trade information exchanges, many of which are made available in public wholesale reports as well as to NEM regulators through:

- AFMA's electricity derivative survey;
- AEMO's Electricity Statement of Opportunities;
- ASX trade reporting;
- State jurisdictional bodies;
- the AER's existing monitoring functions; and
- ASIC's existing powers to access information about participants risk management processes, futures and OTC positions under existing surveillance and licensing powers.

These processes are well known to Alinta and other participants through normal business operations. Further, these existing sources of information act to provide transparency as well as ensuring consistency of observations across the numerous publicly available market reports.

Incremental improvements to existing information sources are likely to meet the transparency objective at least cost

Alinta notes that the ACCC recommended an industry-specific trade repository as its preferred model to meet its priority objective - enhancing transparency of electricity OTC market activity and price trends.

Alinta supports the intent of the ACCC recommendation. However, given the scope of existing sources of information currently available to market observers, Alinta is of the view that incremental improvements to existing information sources, would provide an efficient and least cost alternative to the creation of a new industry specific trade repository.

Alinta notes the August 2018 successful reinstatement of the AFMA electricity derivative survey which provides accurate annual turnover data for the exchange and OTC electricity derivative markets. Alinta has participated in the AFMA survey process since 2013 and can attest to the robustness of survey process and the value of its results to both participants and market observers.

Alinta suggests that incremental improvements to the AFMA derivative survey may provide a suitable alternative pathway forward to meet the objectives sought by the ACCC, and importantly could be achieved at least cost. Alinta would encourage the ESB reach out to AFMA with a mind to canvassing options which would act to improve OTC transparency in a way which meets regulator expectations¹.

In addition to the above suggestion, it is worth noting other existing information sources on OTC prices and volumes which are currently produced by energy brokers within the OTC market. A price data solution involving utilising existing broker information reporting portals could also be worth exploring as a trade reporting alternative.

Should a trade repository be progressed, both cost and information risk considerations will need to be addressed

1. Cost considerations

Putting aside the above suggestions, if a decision to progress with the establishment of a new industry specific trade repository is made, Alinta would encourage detailed consideration of compliance costs within the ESB's analysis.

¹ For example, potentially increasing the frequency of the AFMA survey to a quarterly basis and/or including additional wholesale market statistics. Whilst Alinta hasn't liaised with AFMA regarding this option, Alinta understands several industry participants may be open to these options being canvassed in consultation with the ESB.

As noted above there is a wide variety of wholesale trade information exchanges that participants currently contribute to, all of which incur compliance and participation costs.

The establishment of a new trade repository would necessitate establishment times of several years and require material and ongoing set up costs for integrating existing systems and processes for participants and establishing new standardised data portals and complying with new reporting obligations.

In addition, there are a number of associated issues which need to be considered, before a decision on the establishment of a trade repository is made, for example the treatment of vanilla vs bespoke products within the repository. If the trade repository is intended to capture bespoke products, this would act to likely materially raise the costs of trade repository compliance and should be considered within the ESB's analysis.

2. Information Risk

Trade repositories, by their nature, centralise contractually sensitive information in the form of price, volume and overall contract positioning. Whilst Alinta appreciates that trade repository information is only intended to inform the AER, AEMC and AEMO, the risk of unintentional disclosure is a real and non-trivial risk to market participants.

In addition, there is a further risk that information provided within the trade repository, without detailed supporting information on the physical and risk position of individual market participants, could potentially be misinterpreted by regulators or observers. For example: consider the situation where a retailer is naturally short and a generator is naturally long in the market. This information isn't particularly meaningful without a concurrent and detailed explanation of market participants' physical position, hedge position, trading strategy, corporate structure and future commercial intentions.

Whilst this is clearly a simplistic example, there is a risk that mandatory information disclosure of normal and pro-competitive conduct may inadvertently be misinterpreted as undesirable. Alinta would encourage the consideration of these information risks within the ESB's analysis.

Conclusion

Alinta has long supported the principle of increased transparency within the NEM and, to that end, supports the intent of the ACCC recommendation 6. Nonetheless, Alinta suggests that incremental improvements to existing information sources, may provide an efficient and least cost alternative to the creation of a new industry specific trade repository.

Alinta looks forward to participating in the ESB's ongoing consultation process and would encourage consideration of the alternative pathway forward raised above.

Please contact Mr Anders Sangkuhl via email: anders.sangkuhl@alintaenergy.com.au or by phone 02 9375 0992 if you have any queries in relation to this submission.

Yours sincerely,



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