420 Flinders Street, Townsville QLD 4810
PO Box 1090, Townsville QLD 4810

ergon.com.au

19 October 2018

Dr Kerry Schott
Chair
Energy Security Board
By email to info@esb.org.au

Dear Dr Schott

Energy Security Board Consultation Paper – Market Making Requirements in the National Electricity Market

Ergon Energy Queensland Limited (Ergon Energy Queensland) welcomes the opportunity to provide comment to the Energy Security Board regarding its Consultation Paper on Recommendation 7 of the Australian Competition and Consumer Commission (ACCC) Retail Electricity Pricing Inquiry (June 2018) which recommends the introduction of market making obligations in South Australia, with a review after an appropriate period which may include consideration of extending the obligation to other National Electricity Market (NEM) regions.

Ergon Energy Queensland does not support the introduction of a Market Making Requirement in the NEM as per Recommendation 7 of the Australian Competition and Consumer Commission's Retail Electricity Pricing Inquiry.

In response to the ESB's invitation to provide comments, Ergon Energy Queensland provides responses to the questions raised in the ESB's Consultation paper in the attached table.

Should you require additional information or wish to discuss any aspect of this submission, please contact me on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely

Jenny Doyle
General Manager - Regulation and Pricing

Telephone: (07) 3851 6416 / 0427 156 897
Email: jenny.doyle@energyq.com.au

Encl *– Ergon Energy Queensland comments on the Consultation Paper*

Market Making Obligation in the National Electricity Market

ESB Question	Ergon Energy Queensland Comment
Chapter 2 Triggering the Market Liquidity Obligations	
As it is intended the MLO would be triggered in South Australia immediately (as per recommendation 7), how much time would participants need to prepare for the implementation of the obligation?	Should the Market Liquidity Obligation (MLO) be introduced into Queensland at a future time, Ergon Energy Queensland is of the view that participants be provided with a minimum of one year to establish systems and processes.
What products should be offered by obligated parties when the MLO is triggered by the liquidity test?	Ergon Energy Queensland recommends that flat swaps, peak swaps and flat caps be offered.
What process should be used to determine whether sufficient liquidity exists in a region to satisfy the liquidity test?	Ergon Energy Queensland suggests that two factors be considered to determine liquidity – the extent of interest in the Australian Security Exchange (ASX), and the level of vertical integration (VI) in the market.
What period should be covered in the event of a liquidity trigger (e.g. two years from the commencement of the next quarter – the obligation triggers in May 20XX but commences and covers products from 1 July 20XX)?	Ergon Energy Queensland recommends that quarterly periods be covered, aligning with other market processes.
It is intended the reliability and liquidity triggers would not result in materially different obligations, other than the timeframes the respective obligations apply. Are there circumstances that would require a different treatment between the triggers and/or resulting obligations?	Ergon Energy Queensland has no comment.

How should both triggers interact?	Ergon Energy Queensland is of the view that the reliability and liquidity triggers are not markedly different and may trigger in unison, but does acknowledge the potential for one trigger to may be more constant than another.
What circumstances might necessitate a review of the MLO?	Ergon Energy Queensland considers that changes in VI concentration, company structure and other environmental issues (such as generator outages as a result of drought conditions) would necessitate a review of the MLO.
What factors should be considered for the liquidity test in relation to a market making obligation (e.g. the contract period that should be assessed for liquidity)?	Environmental factors such as a generator planned outages and weather conditions (again such as drought) must be considered to ensure affected generators are not caught by the MLO.
How could the liquidity test apply to Tasmania?	Ergon Energy Queensland has no comment.
Chapter 3 Identifying Obligated Parties	
Does the existence of both a generator and retail licence with related corporate groups adequately capture all large, vertically integrated retailers?	Ergon Energy Queensland suggests there is a need to take into consideration the size of a retailer's trading book. For example, some large generators may hold a retail licence but may only have a limited number (or no) retail customers. Conversely, Ergon Energy Queensland has a large trading book but operates one small generator. Consequently the existence of VI is not enough to be caught by the MLO – rather it is the ratio of retail load to generation capacity.
In addition to a minimum generation size threshold, should there be a minimum retailer size market share threshold? How could this be defined?	Refer to previous response.
Which of the three broad methods to determine generation market share is appropriate?	Ergon Energy Queensland recommends a mix of the "historic availability" method and the "summer availability" method be considered to overcome limitations associated with each method.

	For example, historic availability fails to consider generator closures or expansion while summer availability has the potential to miss environmental trends.
Should the calculation of generator market share in a region be restricted to scheduled generation or should de-rated semi-scheduled generation also be included?	Ergon Energy Queensland is of the view that semi-scheduled generation will not remedy reliability issues and therefore suggests only scheduled generation be included.
In addition to generator ownership, should access to trading rights also be used in the calculation of generator market share?	Ergon Energy Queensland is of the view that whoever has operational control of the generator should be the obligated party.
Are there other methods that should be considered to determine obligated participants?	Ergon Energy Queensland has no comment.
Chapter 4 Market Making Requirements - Trading Platform	
Should alternatives to a centrally cleared platform for the MLO be considered?	Ergon Energy Queensland does not support the creation of another platform and instead supports the use of a centrally cleared platform.
Are the Requirements for Hydro Tasmania under the Tasmanian Electricity Supply Industry Act 1995 adequate for meeting the MLO in Tasmania in the event the Reliability Requirement was triggered?	Ergon Energy Queensland has no comment.
Chapter 4 Market Making Requirements - Trading volume, bid-offer spread, and limits	
Should the volumes associated with quoting bids and offers on the MLO be specified as 5MW parcels? Is there a need for any exceptions? For example, smaller parcels (<5MW) more suited to the needs of smaller participants or new entrants?	Ergon Energy Queensland suggests that to assist smaller retailers, and for consistency with the ASX, volumes down to one megawatt (MW) be allowed.
Is a 5% spread appropriate? Could a tighter spread be justified?	Based on a spread in Quarter 1 2018 of between 1 per cent and 11 per cent, Ergon Energy Queensland concurs with a 5 per cent spread.
Should the MLO operate only in the last half an hour of the trading day or should it extend beyond this window?	Ergon Energy Queensland agrees with the MLO operating in the last half hour of a trading day but notes this may have the effect of

	concentrating trading activity into this period. Such an approach also ensures parties are less likely to "miss out" if the MLO is at a specified and consistent time each day.
What should the Requirements be regarding the refresh of prices once traded?	The refresh rate of new bids or offers if they are traded should be dependent on the trading window length. If the trading window is short (for example, 30 minutes), then the refresh time should also be short. That is, if a bid or offer is traded, then the participant should be required to repost a new bid or offer within five minutes. This could allow up to six refreshes in a half hour trading window. If the trading window is longer than the refresh time should also be longer.
Should there be a limit on trade volume for a participant's obligation over a certain period? How should any limit be determined and over what period should it apply?	Ergon Energy Queensland recommends a limit of 50MW per week on a rolling weekly basis.
Should any limit vary by participant and/or region?	Ergon Energy Queensland is of the view that trading volume will naturally limit participants in regions.
Chapter 4 Market Making Requirements – Safeguards	
How could a trading halt or release of market sensitive information be recognised?	Ergon Energy Queensland recommends the use of a market notice on platform similar to AEMO's current market notice platform.
What process should be adopted to manage changes to market share calculation during the period of an obligation?	Ergon Energy Queensland recommends monthly review of market conditions given the number of factors which could affect market share such as unforced outages of a generator.
What process should be adopted for changes to obligated entities while the obligations are operating?	Ergon Energy Queensland recommends the introduction of a communication protocol via a market notice bulletin board, with obligations for participants to notify the market of a change that has occurred.
How should the obligation apply to entities who previously have not been subject to the obligation? What is an appropriate notice	Ergon Energy Queensland recommends that a notification period of one month be provided to entities ahead of their capture by the MLO.

period?	
Chapter 5 Satisfying the obligations	
Is it appropriate for the MLO to be satisfied through alternate, formalised market-making arrangements? Should there be any constraints?	Ergon Energy recommends that the MLO be limited to swaps and caps as small retailers may not be interested in products such as demand response.
How can the AER be satisfied that a participant is meeting its obligations under the MLO?	Ergon Energy Queensland is of the view that a reporting process will need to be established to satisfy the Australian Energy Regulator of a participant's compliance with their obligation.
Is it appropriate for the AER to rely on third-party assurances such as that provided through alternate market making agreements?	Ergon Energy Queensland has no comment.