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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 – OTC Transparency 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 6 of the Australian Competition & Consumer Commission (ACCC) Retail Electricity Pricing Inquiry (June 2018), which recommends the amendment of the National Electricity Law to require the reporting of all over-the-counter (OTC) trades to a repository administered by the Australian Energy Regulator.

Ergon Energy Queensland does not support the introduction of reporting for OTC trades to a repository administered by the Australian Energy Regulator (AER) as per Recommendation 6 of the ACCC's Retail Electricity Pricing Inquiry. Ergon Energy Queensland is of the view that there are existing alternatives to the repository which report similar data, with less risk of confidential commercial data being inadvertently divulged.

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

A handwritten signature in black ink, appearing to read 'Jenny Doyle'.

Jenny Doyle
General Manager - Regulation and Pricing

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Encl - *EEQ comments on the Consultation Paper*

OTC Transparency in the National Electricity Market

ESB Question	Ergon Energy Queensland Comment
Chapter 2 Establishing and administering a Trade Repository	
<p>What costs and/or other risks need to be considered in the establishment of a new, industry-specific trade repository? How would these compare with leveraging an existing, generic trade repository? How might costs best be managed?</p>	<p>A new trade repository, or leveraging an existing Australian Securities and Investments Commission endorsed repository, will attract additional costs and complexity for industry participants.</p> <p>Assuming participants have each established internal deal capture systems, a separate repository will duplicate established processes and increase compliance costs and efforts.</p> <p>All market participants currently have access to standard products. Transparency in traded volumes and prices is available on the Australian Stock Exchange (ASX). Ergon Energy Queensland is of the view that standard OTC products are unlikely to trade far from the ASX pricing and consequently visibility of ASX pricing is sufficient.</p> <p>Where participants trade more than one product at the same time or combine products to obtain a more favourable overall outcome (for example, by bundling products such as electricity and renewable certificates, or via interregional swaps or intertemporal swaps), should the individual components be viewed in isolation (subject to how the trade is reported), the unbundled pricing has the potential to mislead prices reported to the market.</p> <p>Ergon Energy Queensland acknowledges the Australian Financial Markets Association (AFMA) collects hedge data and has commenced re-publishing a high level report on OTC trades. Ergon Energy Queensland questions the detail the AER repository would report over and above the detail reported by AFMA, noting the AFMA</p>

	<p>report is completed on a voluntary basis and as such is not a complete summary of the derivative market.</p> <p>Ergon Energy Queensland appreciates the intent for data provided to the AER to be reported at a de-identified level. However, Ergon Energy Queensland is concerned that should the data reported be overly descriptive, individual participant or even small participant group contract positions and prices traded could be divulged. OTC trades are commercial and confidential between the two relevant parties, and confidentiality of the trade must be retained. Furthermore, the reporting of non-standard contracts has the potential to expose a retailer's shape.</p>
<p>Are there any timing issues with establishment of a new, industry-specific trade repository? If so, what transitional arrangements could be put in place to deliver targeted benefits in as timely a manner as possible?</p>	<p>Ergon Energy Queensland suggests more granular data collection and reporting requires a lead time of at least 12 months to establish processes and systems to capture the required data.</p> <p>Market participants potentially have thousands of financial contracts effective in any period. We therefore recommend that existing trades not be included in the repository.</p>
<p>Is the AER the most appropriate body to perform the role of administrator of the Trade Repository?</p>	<p>Ergon Energy Queensland concurs with the view that the AER is the most appropriate body to perform the role of administrator of the repository given this function is closely aligned with its regulatory role.</p>
<p>Are there any specific issues or concerns with the AEMC and AEMO being provided access to information reported to a Trade Repository? If so, what limitations should be placed on their use and dissemination of data?</p>	<p>Ergon Energy Queensland agrees with the Australian Energy Market Commission being provided with access to the information reported to a repository.</p> <p>However, Ergon Energy Queensland is uncertain why the Australian Energy Market Operator (whose role in the market relates to reliability and security) would require access to the detailed commercial information reported in the repository.</p> <p>Ergon Energy Queensland's preference is to limit the number of parties with access to this sensitive information, thus mitigating the risk of any unintentional release of the highly confidential data</p>

	contained within the repository.
Chapter 3 Reporting	
What level of disclosure of OTC-traded products is appropriate? What information would be most useful to market participants, regulators and policy makers?	<p>Ergon Energy Queensland would support the disclosure of total volume and price construct based on a view that there are limited discrepancies in standard product pricing between ASX and OTCs, and provided the data published is not transparent.</p> <p>Ergon Energy Queensland opposes the reporting of non-standard contracts due to the ability to expose a retailer's shape.</p> <p>Ergon Energy Queensland notes the AFMA report is at a high level, limited to volume in total megawatt hour (MWh) by generator group; retailer group (broken up by swaps/caps); and State by product and participant type. No price is reported.</p>
To what extent will the level of disclosure impact on the choice of trade repository (i.e. new, industry-specific versus leveraging existing trade repositories, on a transitional basis or otherwise)?	<p>Should the AER require details of each trade, a new repository will be required. However, if data is reported at a high level, then the option exists to leverage the AFMA process.</p> <p>Regardless of the repository selected, Ergon Energy Queensland (and most likely all other market participants) will need to replace existing systems to comply with new reporting formats.</p>
How frequently should the information be updated and publicly reported?	Ergon Energy Queensland recommends that information be updated and publicly reported on an annual basis by financial year.
Does AFMA restarting its voluntary survey of OTC electricity derivative trading have any implications for the need for a trade repository? If so what are the implications?	<p>In responding to this question, Ergon Energy Queensland recommends that the reason for the repository needs to be better understood. If the repository is to satisfy market reliability, then we are of the view that a new repository is required, noting the potential for duplication in reporting with the AFMA process.</p> <p>However, if the purpose of the repository is to provide transparency within the contract market, then the AFMA process provides a good representation of the market but noting the AFMA process is currently</p>

	a voluntary process and not all market participants are members of AFMA.
To what extent, if any, would trade-to-trade reporting and publication compromise confidentiality of OTC transactions? How could any risks be mitigated?	Ergon Energy Queensland is of the view that only high level data be reported to mitigate risks associated with the inadvertent release of confidential trade data.
Chapter 4 Obligation	
If Recommendation 6 were implemented, should it occur through changes to the NEL? If it was implemented using the NEL, how could it be designed to minimise the volume of non-reported trades?	If Recommendation 6 was implemented via the National Electricity Law, then banks and other intermediaries will be excluded from complying as they are not registered participants in the NEM. Ergon Energy Queensland is instead of the view that Recommendation 6 could be delivered more appropriately via Financial Services Licences.
Could obligations and reporting arrangements established for an industry-specific trade repository be streamlined with other regulatory processes?	Ergon Energy Queensland does not believe reporting arrangements could be streamlined with other regulatory processes.
Alternatively, are there specific approaches which could be adopted to minimise the compliance burden on market participants? For example, should trading intermediaries be allowed to report on behalf of liable entities?	Ergon Energy Queensland is of the view that a party which trades on behalf of another entity (such as a broker) should be captured by the reporting obligation. However, how the trade is reported will require further consideration to ensure the trade is not reported twice.