

18 October 2018

Energy Security Board
c/- COAG Energy Council Secretariat
John Gorton Building
King Edward Terrace
Parkes ACT 2600

Submitted electronically: info@esb.org.au

OTC Transparency Consultation Paper

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation Paper from the Energy Security Board (ESB) on the OTC Transparency.

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro does not support the proposals from the ESB to manage concerns about the transparency of contract markets in the electricity market. Listing all qualifying contracts into centralised trade repositories would be expensive to implement and a daily administrative burden on the industry. The industry has worked hard to improve transparency through the recent Australian Financial Markets Report (AFMR). The AFMR provides clear evidence that our markets are performing well and contributing solidly to the growth of the Australian economy which clears up misconceptions around the lack of transparency in the market. Rather than any trade repository being established the AFMR survey could be further enhanced to provide the transparency required.

OTC Transparency

Snowy Hydro believes a trade repository is not required as it would be expensive to implement and a daily administrative burden. It will give more advantage to financial speculators than to new entrant/small retailers. There already exist various sources of OTC trade reporting. A viable alternative to improve transparency without unnecessary cost burdens is to utilise Broker recorded OTC trades and for the industry to work with the Australian Financial Markets Association (AFMA) annual surveys to get more granular OTC reporting.

The Australian Financial Markets Report (AFMR) covers electricity derivative volumes that were traded 'OTC' and on the ASX. The AFMR *"published data currently include OTC and ASX turnover (MWh traded) by year, state, instrument (e.g. swaps, caps, swaptions and other options), liquidity ratios (NEM aggregate turnover to system demand), OTC trading concentration and transaction characteristics¹"* as noted in the consultation paper. The AFMR report covers industry issues affecting the front, middle and back office functions of members².

¹ Energy Security Board (ESB), 2018, "OTC Transparency in the NEM – ESB Consultation Paper", pp8

² AFMA, 2018, "2017 Australian Financial Markets Report", <<

<https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>

The AFMR report provides evidence that Australia's financial markets are highly competitive, with a good spread of participants from both Australia and overseas. The reports shows that innovation by participants in our financial markets is helping to more efficiently meet the investment needs of superannuation funds, the funding needs of business and the capital requirements of infrastructure projects³.

Snowy Hydro believes AFMR provides clear evidence that our markets are performing well and contributing solidly to the growth of the Australian economy which clears up misconceptions around the lack of transparency in this market. In addition the AFMR survey provides a forum for industry participants to work with each other and government to improve the effectiveness which strengthen the industry structures to support professionalism in our markets. Snowy Hydro believes the AFMR survey is a clear demonstration of the industry's commitment to support the future development of our financial markets so they continue to be effective in servicing the needs of our economy⁴.

A mandated trade reporting across the whole industry may only marginally increase transparency but would come at a significant cost. This cost benefit trade would not justify trade reporting with a significant daily administrative burden on the industry.

The Consultation Paper incorrectly claims that *"in 2009 at the G20 summit, Australia committed to practices to improve the transparency of OTC derivatives and risk management practices in the wake of the global financial crisis"*.⁵ This is incorrect as those GFC reforms arose because of concerns with the need to manage system risk arising from counterparty credit exposures (for example, for interest rate derivatives). This has not previously been a problem in the electricity sector, and for this reason electricity derivatives were exempted from mandatory clearing requirements introduced in Australian financial markets. The trade repository or any design which places significant obligations on market participants would instead impair efficiency and increase electricity costs for consumers.

Snowy Hydro believes the AFMR survey provides enough transparency although aggregated standardised trade reporting could be undertaken if it used data covered in the existing AFMR data. Accordingly if the data is not sufficient we recommend the AFMR survey could be further enhanced to provide the transparency required. We would be willing to work with AFMA to improve the report to the satisfaction of regulators.

Snowy Hydro appreciates the opportunity to respond to the Consultation Papers. Any questions about this submission should be addressed to Panos Priftakis, Regulation Manager, by e-mail to panos.priftakis@snowyhydro.com.au.

Yours sincerely,



Kevin Ly
Head of Wholesale Regulation
Snowy Hydro

³ AFMA, 2018, "2017 Australian Financial Markets Report", << <https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>

⁴ AFMA, 2018, "2017 Australian Financial Markets Report", << <https://afma.com.au/data/afmr/2017%20AUSTRALIAN%20FINANCIAL%20MARKETS%20REPORT.pdf> >>

⁵ Energy Security Board (ESB), 2018, "OTC Transparency in the NEM – ESB Consultation Paper", pp4