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Submitted by email to RRO@aer.gov.au

For Consultation - Draft Interim Market Liquidity Obligation Guideline

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation Paper from the Australian Energy Regulator (the AER) on the Draft Interim Market Liquidity Obligation Guideline.

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 acknowledge that the AER guideline is intended to assist market participants to understand how the AER will exercise its functions in relation to the operation of the Market Liquidity Obligation (MLO) as part of the Retailer Reliability Obligation. The AER however must firstly recognise that the MLO sets off a major compliance exercise by the industry. The MLO proposal which would compel physical participants to trade contracts they are unwilling to trade free, due to a lack of financial incentives and additional risk exposure, would be a significant change in the operation of the NEM. The mandatory MLO will lead to increased costs and a substantial administrative burden.

Should the mandatory MLO proceed it is important that the AER use and rely on the range of public information available through data published by AEMO, the AEMC and jurisdictional regulators to the extent possible. Using significant confidential data from obliged parties, will provide incentives for non-obligated parties to "free ride" and benefit from the obligations faced by other market participants.

Impact of a mandatory MLO

Snowy Hydro believes the AER should be mindful of the issues regarding the implementation of a mandatory Market Liquidity Obligation (MLO) which will impose very large trading risk on market participants with no improvement on reliability.

The widely held industry view is that an MLO implemented across the NEM would be ineffective and clearly misguided with the obligation likely to encourage financial misbehavior by Participants trying to exploit competitors' enforced buy/sell market making obligations. Instead Snowy Hydro supports adopting voluntary mechanisms if there is a financial liquidity market failure. It is our expectation that voluntary mechanisms can be designed to meet the requirements under the MLO. The major

difference and advantage with the voluntary schemes is that they will be functioned by willing Participants with either the physical and/or financial resources to provide increased liquidity in the NEM.

Although a lack of market liquidity could be a problem in South Australia, the MLO won't solve this as it won't address the physical factors of the market which is a small demand, high variable renewable energy-based generation and low interconnection region which make the market riskier, more volatile and as a result less liquid for contracts.

Initiatives should be market led instead of Regulators intervening in the market with a regulated mechanism.

Obligated parties under the MLO

The AER notes that designated MLO market generators will be required to provide information about their generation assets, including generation capacity, details of trading rights holders, and the controlling entities behind trading rights holders with the information used to develop the MLO register. In detail the Market Generator must provide the AER with the following information:

- the scheduled generating units in relation to which it is a Market Generator;
- its generator capacity;
- the identity of each of its trading right holders;
- the trading rights held by each of its trading right holders;
- the trading group to which each of its trading right holders belongs;
- the identity of the ultimate controlling entity of each of its trading right holders;
- the allocation of its traced capacity to one or more trading groups;
- the trading group capacity of each trading group to which each of its trading right holders belong; and
- any traced capacity for which it has appointed a MLO nominee to discharge, and the identity of that MLO nominee.¹

To obtain the data for the MLO register the AER should only use and rely on the range of public information available through data published by AEMO and jurisdictional regulators to the extent possible. The breadth and depth of this public data is sufficiently wide and deep to allow the AER to form part of an MLO register. We strongly caution against compelling Participants to divulge confidential data/information which would undermine certainty and confidence in operating in the NEM and hence would deter new investment in the NEM and/or create increased costs for these new investments as investors would incorporate an additional risk premium for investing and operating in an intrusive regulatory environment.

Snowy Hydro has consistently argued that the mandatory MLO will be overly onerous on obliged parties, with significant incentives also for non-obligated parties to "free ride" and benefit from the obligations faced by other market participants.

Increased transparency in the contract market has been provided

The AER should be aware of the improved information around contracting particularly through products that are not traded on an exchange, such as bespoke risk management tools (for example weather derivatives, load following hedges), and also Over-The-Counter (OTC) traded products,

¹ AER, 2019, "For Consultation - Draft Interim Market Liquidity Obligation Guideline Retailer Reliability Obligation"

internal hedges and Power Purchase Agreements. The Australian Financial Markets Association (AFMA) survey of Over The Counter (OTC) electricity derivative turnover has improved the quality and availability of this information . This credible survey allows greater visibility of the electricity trading hedging products and backfill any missing data allowing an extra source of information for public use.

Costs of the Market Liquidity Obligation

Snowy Hydro is concerned that the compulsory market making approach will increase risks for obligated parties and hence result in significant costs. The proposal which would compel physical participants to trade contracts they are unwilling to trade free, due to a lack of financial incentives and additional risk exposure, would be significant change in the operation of the NEM.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Ly', with a horizontal line underneath.

Kevin Ly
Head of Wholesale Regulation
Snowy Hydro

