

# Consultation Note

## MLO Exchange Review

### Retailer Reliability Obligation

The Australian Energy Regulator (AER) has several responsibilities under the Retailer Reliability Obligation (RRO) section of the National Electricity Rules (Rules).

The Australian Energy Market Operator (AEMO) will identify any potential reliability gaps in each National Electricity Market (NEM) region in the coming 5 years using its Electricity Statement of Opportunities. If AEMO identifies a material gap 3 years and 3 months out, it will apply to the AER to trigger the RRO by making a reliability instrument.

Ministers for jurisdictions within the NEM can also trigger the RRO for their respective jurisdictions.

If the RRO is triggered, at T-3 (3 years out) the Rules require the obligated parties in the relevant region to commence making bids and offers for Market Liquidity Obligation (MLO) products on the MLO exchanges within 5 business days.

The MLO is a market making requirement designed to facilitate transparency and liquidity in the trading of electricity futures contracts relating to a forecast reliability gap.

The MLO operates between T-3 and T-1 (one year out) when the RRO is triggered. The MLO provides a source of qualifying contracts for liable entities to purchase to help them meet their RRO contracting requirements. Parties obligated under the MLO are required to post bids and offers, with a maximum spread, on an approved exchange for standardised products that cover the period of the gap.

### MLO Exchange Review

An MLO exchange is a trading facility that is approved by the AER to facilitate the trading of MLO products. The transitional Rules provided for the Australian Securities Exchange's "ASX 24" to be a designated MLO exchange from the commencement date of the RRO.

FEX Global was approved as an additional MLO exchange in May 2022 on which the obligated

parties (MLO groups, MLO generators and liable entities) can trade MLO products.

### Annual review process for the MLO exchanges

The AER's Interim Market Liquidity Obligation guidelines (MLO Guidelines) and clause 4A.G.23(f) of the National Electricity Rules set out the annual review process the AER is required to undertake to consider whether MLO exchanges are meeting the criteria set out in clause 4A.G.23(d). In deciding whether to approve a trading facility, the AER must consider the following criteria:

- all MLO products (other than any MLO product approved under clause 4A.G.22(b)) are able to be bought and sold on the trading facility; (clause 4A.G.23(d)(1))
- the trading facility has an adequate volume of trading and diversity of participants; (clause 4A.G.23(d)(2))
- the rules of the trading facility include (or will include) appropriate rules to allow MLO generators to perform a liquidity obligation; (clause 4A.G.23(d)(3))
- the trading facility has appropriate credit and prudential arrangements; (clause 4A.G.23(d)(4))
- the costs and ease of trading on the trading facility are reasonable; (clause 4A.G.23(d)(5))
- the AER has a reasonable expectation that the relevant MLO products will be traded on the trading facility; (clause 4A.G.23(d)(6))
- the operator of the trading facility can provide relevant trading data to the AER when requested, for the purposes of monitoring compliance with Division 8; (clause 4A.G.23(d)(7))
- the operator of the trading facility holds all licences and approvals required by law to operate the trading facility; (clause 4A.G.23(d)(8))
- and any other relevant criteria set out in the MLO Guidelines (clause 4A.G.23(d)(9)).

## Consultation process with MLO exchanges

Prior to the start of the MLO review, the MLO Guidelines provide that the AER will engage and advise the MLO exchange that the MLO review has commenced. Further, the AER may seek information from the MLO exchanges to support the review, with any requests required to be in writing and included in the correspondence with the relevant MLO exchange.

For the 2023 MLO Review, we have engaged with both MLO exchanges (ASX 24 and FEX) to advise them that the MLO review has commenced. We have also written to both MLO exchanges seeking their responses to the criteria provided above.

## Consultation process with stakeholder

As part of the MLO review, we are seeking stakeholders' views on whether the 2 MLO exchanges meet the criteria set out in clause 4A.G.23(d).

**Question - Do stakeholders have any feedback or comments in relation to whether ASX24 or FEX meet the criteria set out in clause 4A.G.23(d)?**

## Outcomes of MLO exchange review

Following our assessment, the AER may revoke the approval of any exchange if it determines the trading facility is no longer satisfying the criteria in this section.

Following the review, the AER will maintain its register of approved MLO exchanges on the AER website, in accordance with clause 4A.G.23(e).

## Invitation for submissions

Interested parties are invited to make submissions on this consultation paper by Wednesday 18 October 2023.

Submissions should be sent to: [rro@aer.gov.au](mailto:rro@aer.gov.au)

Alternatively, submissions can be sent to:

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A/General Manager, Market Performance

Australian Energy Regulator

GPO Box 3131

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Submissions should be in PDF, Microsoft Word, or another text readable document format.

We prefer that all views and comments be publicly available to facilitate an informed and transparent consultative process. Views and comments will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information should:

- clearly identify the information that is the subject of the confidentiality claim.
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential information will be placed on the AER website. For further information regarding the use and disclosure of information provided to the AER, see the [ACCC/AER Information Policy](#) (June 2014).