



Mr Peter Adams
Australian Energy Regulator
Lodged via: rro@aer.gov.au

Tuesday 14 May 2019

Dear Mr Adams,

Draft Interim Market Liquidity Obligation Guideline

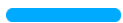
ENGIE in Australia & New Zealand (ENGIE) welcomes the opportunity to make a submission in response to the Australian Energy Regulator's (AER) Draft Interim Market Liquidity Obligation Guideline (MLO guideline). ENGIE commends the AER for its efforts to engage with industry in the development of the guideline notably in the context of such short timeframes.

ENGIE is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 690,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland and Western Australia.

Discussion

While this submission focuses on the MLO guideline, ENGIE would like to take the opportunity to note that its experiences engaging with Government and agencies during recent months has not addressed concerns regarding implementation of the RRO. ENGIE remains concerned about the short timeframes and significant detail that is being left to the guidelines to resolve. In such an environment, the AER and Government needs to give appropriate scope for a soft implementation of the RRO.

Although the MLO guideline does not provide an opportunity to address the policy drivers behind the MLO, ENGIE wishes to reiterate its concerns that the MLO is unneeded and inappropriate.





First, the detailed and significant points raised with the ESB and in the context of the *Market Making Arrangements in the NEM Rule Change* have not been adequately resolved. This includes the broad preference for a voluntary mechanism over compulsion.

Second, the situation where a generator is unable to offer physical coverage for contracts that it is obligated to trade due to the MLO means the ESB is supporting a policy position that may require those generators to become to take financially speculative positions. This is an inappropriate position to place those companies in and is likely to be in direct conflict with company boards who are unwilling to permit speculative trading.

Deeming MLO Generators and Groups

ENGIE appreciates the rationale for deeming and supports a technology neutral approach to deeming to ensure all parties that can affect the market are captured.

Generator capacity

ENGIE had been led to believe that the ESB was going to introduce an MLO capacity measurement that corresponded with the season in which a shortfall occurred, expected to be summer. The MLO guidelines does not appear to have given affect to this proposal. ENGIE would encourage the AER to resolve this matter and provide affected parties with appropriate clarity.

Approval of additional MLO products

The proposed process for approving additional MLO products may ultimately ensure that no new products are approved. The AER's expectation that parties will approach the AER to have new product developments confirmed places the AER at the centre of innovation in this space. This is not desirable and does not reflect the AER's core competencies.

There are few reasons that new products cannot be allowed where parties are willing to trade those products. This should not require the AER's pre-approval. This puts the market at the centre of determining what is and is not a suitable new MLO product. The AER should only concern itself where it can be demonstrated that trades are not occurring off the back of certain products as they are not suitable. Parties will quickly enough raise concerns if a product is not deemed unsuitable. This will be a less bureaucratic and centrally controlled process.

MLO Qualifying Contracts

The MLO guideline appears to limit the contracts that can be made available to monthly and quarterly contracts. ENGIE believes contract duration should not be limited in this way given contracts of shorter or longer length may be suitable or more manageable by affected parties.



Bids, offers, and volumes

ENGIE is particularly concerned that the bid and offer spreads in the MLO guideline do not match those proposed by the ESB in the final rules for the RRO. ENGIE had noted its concerns with the earlier spreads which the AER has included in its MLO guideline. The spreads in the final rules for the RRO are more suitable.

Recording trades and offers

ENGIE is slightly unclear on how the AER intends to measure or record which trades and offers are related to the MLO where a party is likely to be undertaking multiple trades. Does the MLO obligation form a minimum set of offers and trades which if exceeded is satisfied with no additional record keeping? Conversely, do separate designated MLO offers and trades need to be recorded in the absence of a designated trading platform?

To be clear, ENGIE is not talking about the use of ASX or alternative exchanges.

Management of buy side

ENGIE understands that an oversight in the MLO arrangements, which is not addressed in the MLO guidelines, may result in buy side trades not counting towards the various limits to be imposed on affected parties. Such an outcome seems unintended and would be unacceptable to obligated parties.

ENGIE encourages the AER to resolve this issue as a matter of priority.

Conclusion

ENGIE appreciates the AER's efforts during this period and looks forward to the upcoming workshops to be hosted by the AER. Nonetheless, ENGIE remains concerned about the timelines for implementation and the interaction of the draft guidelines with the final rules for the RRO.

Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Jamie Lowe".

Jamie Lowe

Head of Regulation