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Mr Peter Adams  
General Manager, Market Performance  
Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

By email: [wholesaleperformance@aer.gov.au](mailto:wholesaleperformance@aer.gov.au)

Dear Mr Adams

**Wholesale electricity market performance reporting Draft 2020 Focus (PUBLIC VERSION)**

EnergyAustralia welcomes the opportunity to make this submission to the Australian Energy Regulator's (AER) Wholesale electricity market performance reporting Draft 2020 Focus paper (Draft focus paper).

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion-dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation capacity in the National Electricity Market (NEM).

We appreciate the AER's consultation with industry at this early stage to provide transparency over the direction of the 2020 Wholesale electricity market performance report. We encourage the AER to continue this consultative approach when conducting its analysis and when requesting information. Specifically, informal discussion between the AER and market participants can assist in quickly building an understanding of an issue so that market participants can provide the best information to support the AER's analysis.

Our comments on the Draft focus paper are set out below. They relate to the markets that the AER proposes to focus on and the conduct issue regarding black coal participants in NSW and Queensland.

## **Derivatives products**

The AER identifies derivative products as a market of focus and has cited findings from the AER's Wholesale electricity market performance report 2018 (2018 report) which suggest that there is still limited visibility regarding bilateral over-the-counter (OTC) transactions, and specifically, a lack of transparency regarding the liquidity of OTC transactions. This follows previous concerns about transparency by the AEMC and the ACCC.

We consider that OTC transactions should not be subject to new reporting requirements to the AER or AEMC. OTC transaction data is commercially sensitive. If retailers were to provide that data to additional external organisations, it increases the risk of potential instances of data security breach by third parties which could lead to material commercial harm.

[Confidential]

Moreover, as noted by the AER in its 2018 report, market participants (including EnergyAustralia) provide the Australian Financial Markets Association (AFMA) data about OTCs which AFMA then aggregates and analyses. If there are deficiencies in the data for the purposes of supporting the AER's investigation into the liquidity of OTCs, it would be more efficient for the AER to engage AFMA and seek to change their survey requirements.

Separately, we also note the potential complexities in analysing data regarding OTC contracts and trades generally and would ask that the AER be cognisant of these complexities. As a simple example, double counting issues might arise with the AFMA data (where trades between two participants could be double counted). Other complexities arise where AFMA data is aggregated; certain assumptions need to be made about what contracts can be counted as like for like, and these assumptions are often complex when contracts are multi-dimensional in nature.

## **Demand side participation**

EnergyAustralia agrees with Demand side participation being a focus for the 2020 Wholesale electricity market performance report. Since 2018, the demand side participation market has significantly developed due to:

- the cyclical nature of the uplift in wholesale prices (for example, after the closure of Northern and Hazelwood);
- support from the joint ARENA and AEMO Demand Response Initiative<sup>1</sup>;
- competitive new Internet of Things technology and products in the market such as wholesale pool pass through contracts for mass market customers and new products launched targeting Commercial and Industrial customers; and
- new business models focused on supporting the provision of demand response for mass market customers.

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<sup>1</sup> <https://arena.gov.au/17-18-annual-report/arena-showcase/demand-response-initiative/>

The AER should analyse the effect of these developments on the wholesale electricity and frequency control ancillary services markets; and their contribution to any avoided network investment costs at a localised level. In particular, the AER should utilise the information submitted to AEMO's Demand Side Participant portal and report on the materiality of non-compliance with portal requirements, and independently use the data to assess volumes of demand side response in the market. The AER should also seek to engage with retailers to understand the utilisation of demand response in the market.

The AER's analysis should also take into account the potential impact of the AEMC's wholesale demand response mechanism (where finalised) and the likely effect of encouraging new entry of Demand response providers into markets and increased competition.

We agree with the Draft focus on the impact of the RERT on demand side participation as an issue for further investigation. EnergyAustralia's experience since 2018 suggests that the RERT is possibly "crowding out" efficient demand response providers. As the AER would be aware, this is because "out of market" RERT and commercially priced "in market" demand response, are essentially competing products with exclusion provisions. RERT contracts are often priced significantly higher than commercial contracts given their driver to improve reliability due to supply side scarcity. We suggest that the AER adopt an evidence-based approach to investigating these impacts that includes the use of market participant surveys and data analysis where possible.

### **Frequency Control Ancillary Services (FCAS)**

In assessing changes in FCAS the AER should explicitly identify the impact AEMO's changes to load relief that have precipitated.<sup>2</sup> The AER should also be cognisant of the proposed rule change to mandate primary frequency control.<sup>3</sup> The AER should consider the effect this rule could have on FCAS markets and, if implemented in 2020 as proposed, assess the subsequent impact it has on FCAS markets.

### **Conduct issues**

In the focus paper, the AER identifies the offer behaviour of black coal participants in Queensland and NSW as an issue requiring further monitoring and information requests. If the AER's main issue is around offers in NSW and Queensland being above costs, then we ask that the AER recognise other drivers behind increases in offers by black coal participants. In particular, the current challenges to coal supply in NSW which may lead to behaviours that seek to conserve coal to ensure sufficient fuel is available to generate during peak times.

If you would like to discuss this submission, please contact me on [Selena.liu@energyaustralia.com.au](mailto:Selena.liu@energyaustralia.com.au) or 03 8628 1548.

Yours sincerely

**Selena Liu**  
Industry Regulation Lead

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<sup>2</sup> <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/Ancillary-services/Load-relief>

<sup>3</sup> <https://www.aemc.gov.au/rule-changes/mandatory-primary-frequency-response>