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Australian Energy Market Commission
PO Box A2449
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AEMC Ref: ERC0249
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AEMC, Market making arrangements in the NEM, Consultation paper, 20 December 2018

Meridian Energy Australia Pty Ltd (**Meridian**) thanks the Australian Energy Market Commission (**AEMC)** for the opportunity to provide comments in response to the consultation titled - *National Electricity Amendment (Market Making Arrangements in the NEM) Rule 2019.*

Meridian is an investor in generation owning the Mt Mercer and Mt Millar wind farms as well as three newly acquired hydro assets, the Hume, Burrinjuck and Keepit hydro power stations. Meridian also recently entered into a number of power purchase agreements supporting the development of new renewable generation in the NEM. In addition to our investments in wind and hydro power, Meridian is actively assessing opportunities for investment in dispatchable generation including, but not limited to, pumped hydro and batteries. Our energy generation and wholesale market activities are assisting in Australia's energy transition and in identifying new mechanisms to enhance reliability and security of energy supply.

NEM Contract Market

The National Electricity Market (**NEM**) is a gross pool market where participants (generators and retailers) are exposed to the half hourly spot price of electricity. In order to manage financial exposures in the NEM participants own generation, contract power purchase agreements (**PPAs**) or enter hedging contracts in either the Over the Counter (**OTC)** or Australian Stock Exchange (**ASX**) markets. OTC and ASX markets facilitate trading between willing participants to buy and sell financial contracts in order to manage their business requirements.

The Australian Competition and Consumer Commission (**ACCC**) in their Retail Pricing Enquiry recommended that the market making obligations should be introduced in South Australia to increase market liquidity. These market making obligations would compel vertically integrated retailers to make offers to buy and sell hedge contracts each day.

Meridian supports reform that promotes the efficient operation of markets and leads to the benefits that are in the long term interest of consumers. Meridian believes that any market making obligation should only be promoted to the extent that contracts are traded by willing participants according to their business requirements. Forcing participants to trade through market making powers is likely to distort financial markets and work against preserving the integrity of the market which would clearly be against the long term interest of both the NEM and consumers.

Contract Liquidity

Meridian is a participant in the South Australian market and believes there is currently sufficient liquidity in both the OTC and ASX markets, to manage business requirements. We recognise that contract liquidity in South Australia is far less than other regions, but we are cognisant that there are only a handful of generators in a small market comparative to neighbouring nodes in the NEM and unsurprisingly this leads to less financial trading activity.

We categorise sufficient liquidity as the ability to enter contracts over time to manage portfolios in the lead up to spot quarters. We question the benefit of guaranteeing contract liquidity every day in a small market with few players. Guaranteeing liquidity through forced market making arrangements will likely increase risk and costs in the market. Meridian believes the costs of such an arrangement would far outweigh the potential benefits and these costs would ultimately be borne by consumers.

Investment in new generation

The consultation paper suggests that liquid contract markets help developers of new generation reduce the risk of low prices and promotes further investment in the NEM. The Australia Energy Market Operator's (**AEMO**) most recent Electricity Statement of Opportunity (**ESOO**) states that over 1,000MW of new renewable generation in the past two years has been, or is in the process of being, built. Much of this new generation has been built on the back of publically announced PPA's with either retailers or industry, bypassing traded financial markets. South Australia's 2019 forecast maximum demand is 2,901MW[1] and this shows that the level of new generation investment is healthy. There is little evidence to suggest that increased liquidity in financial markets, which generally trade out up to 3 years, will further promote increased investment in new generation with investment horizons greater than 20 years. What is interesting to observe is that the physical contract market is evolving and PPA's have increased significantly in recent years possibly reducing the requirements for traded financial contracts.

In Summary

In considering the dynamics of the South Australian market, Meridian believes that a voluntary market making process strikes a balance between the status quo and a forced obligation. We believe a trading exchange (such as the ASX) with dedicated skills and expertise in financial markets is best placed to run a market making trading scheme rather than one created for and administered by the AER. As such Meridian Energy does not support the rule change proposal.

[1] AEMO, 2018 Electricity Statement of Opportunities Aug 2018, p.46 (2019 Summer 50% POE operational demand)

If you have any queries or would like to discuss this submission further. Please do not hesitate to contact me.

Yours Sincerely,

Ed McManus

CEO Meridian Energy Australia