



26 April 2019

Elizabeth Bowron
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235
(lodged online at www.aemc.gov.au)

Dear Ms Bowron,

COGATI Implementation – Access and Charging

The Australian Financial Markets Association (AFMA) welcomes the opportunity to provide comment on the COGATI Implementation – Access and Charging consultation paper (“COGATI consultation”).

AFMA is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets. AFMA represents the common interests of its members in dealing with issues relevant to the good reputation and efficiency and competitiveness of wholesale banking and financial markets in Australia. AFMA has more than 120 members reflecting the broad range of participants in financial markets, including Australian and international banks, leading brokers, securities companies, fund managers, energy companies and industry service providers.

Whilst acknowledging the overall objectives of the consultation paper, AFMA's focus is on the efficiency and competitiveness of electricity financial markets. Accordingly, our comments are limited to those areas that relate to this focus.

We agree with the statement on page 17 of the Supplementary information paper that “more analysis needs to be done to assess the impact that the proposed access regime may have on the electricity contracts market, including its potential impact on market liquidity”. Notwithstanding that the supplementary paper attempts to address these concerns, we would like to ensure our members' views are noted at this stage.

In recent discussions amongst our member base, members have expressed concerns about aspects of the COGATI consultation proposals, and in particular the implementation of dynamic regional pricing. The view reflected from a number of

members is that the proposed implementation has significant implications for forward contracting in electricity financial markets, and hence has the capacity to hinder the efficiency and liquidity in these markets.

The below is a summary of the key comments we have received from our member base:

- The introduction of dynamic regional pricing represents significant reform which has been presented as a solution without due consideration of costs and benefits of its implementation or of alternative solutions, and more detailed analysis of costs and benefits is desirable before major implementation decisions are made.
- The introduction of dynamic regional pricing introduces basis risk for generators who enter into hedging contracts based on the regional reference price, however may receive a different dynamic regional price. The difference between the two prices can change considerably over time as well. The inability to hedge against the future difference between the two prices (regional vs dynamic) is of significant concern to participants, and may limit their interest in using hedge contracts going forward if dynamic pricing is introduced. This could have a detrimental effect on market liquidity and efficiency.
- The AEMC in its review process will need to be continually mindful that the measures within the COGATI review are consistent with other programs being delivered by multiple regulatory bodies, such as:
 - Introduction of 5 minute rule change
 - The Integrated System Plan
 - The ESB NEM post 2025 Market Design
 - Various AEMC Rule Change requests under consideration, including the voluntary market making rule change request
 - The Retailer Reliability Obligation, including the market liquidity obligation

Thanks again for the opportunity to provide comment on the COGATI consultation, and we welcome any further opportunity for the AEMC to consult directly with our members in the future.

Yours sincerely



Mike Chadwick
Head of Education and Director - Markets