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### **Implementing a framework for Australia's G20 commitments on OTC derivatives**

The Australian Energy Regulator (AER) welcomes this opportunity to comment on the design of a framework to implement Australia's G20 commitments in relation to over-the-counter (OTC) derivatives. The current consultation relates to implementation of the legislative scheme, but also seeks initial views on classes of parties and transactions that may be included or excluded from the scheme.

The AER sets the prices for using electricity networks in Queensland, New South Wales, Victoria, South Australia, Tasmania, and the ACT; and for gas pipelines in jurisdictions other than Western Australia. We also monitor wholesale energy markets, and undertake a range of compliance, enforcement and reporting roles in this sector. Our work program will soon extend to retail energy markets.

We note there is an important market for electricity derivatives which is rapidly evolving. Trading in electricity derivatives is equivalent to about 400 per cent of electricity generated in the National Electricity Market, with a third of all trade occurring in OTC markets. To place this in perspective, annual spot market turnover is around \$10 billion. Derivative trading is essential for market participants, given the spot market's volatility—spot electricity prices may range from \$-1000 to \$12,500 per megawatt hour in the space of a day.

We note the default position that the G20 commitment on reporting of all OTC derivatives to trade repositories appears to capture electricity derivatives. The obligations on clearing and execution of standardised OTC derivatives may also capture electricity derivatives.

The inclusion of electricity derivatives under the scheme would be a contentious issue, with the potential for both significant costs and benefits. The potential benefits include enhanced

market transparency and a reduction in counterparty risk; for example, this may reduce the risk of a catastrophic event such as a cascading generator–retailer failure. Conversely, the inclusion of electricity derivatives under the scheme may impose compliance costs.

The AER has not yet reached a definitive view on the merits of this issue, but wishes to note its significance. We consider that the question of coverage of electricity derivatives is appropriately a matter for detailed investigation that should include public consultation.

We note that should the reporting obligations capture electricity derivatives, the resulting data may be of significant value to the AER and ACCC in undertaking their statutory responsibilities. We therefore propose that the legislative scheme and regulations make provision for the AER and ACCC to access this data.

If you wish to discuss these matters further, please do not hesitate to contact Tom Leuner, General Manager, Wholesale Markets, on (03) 9290 1890.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Reeves', with a stylized flourish at the end.

Andrew Reeves  
Chair