



**Government
of South Australia**

Department for
Energy and Mining

Firm Energy Reliability Mechanism

Market Liquidity Obligation

Consultation Paper - Response
Template





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Please indicate any parts of your submission to be treated as confidential	

Question:

1. Do the proposed approaches of allowing obligated participants to participate at the group level (for REE's that are part of a larger corporate group) or to nominate a trading entity (e.g. for obligated participants that may not have trading resources/capability, or for instances when trading resources are unavailable) provide sufficient operational and commercial flexibility? Are there any risks with this approach?

Response: Yes, we view that this proposal is appropriate. However, it is important to highlight that smaller obligated participants may still face a material burden, even with the option to outsource or nominate a trading entity. Establishing and managing these arrangements requires time, expertise, and additional oversight processes that can represent a disproportionate cost relative to their scale.

Moreover, credit-related challenges are likely to be more pronounced for smaller organisations, particularly in circumstances where the ASX is not used as the nominated platform. Alternative platforms may require bilateral credit support, higher collateralisation, or more complex credit assessment processes. Smaller participants typically have more limited balance sheet capacity and fewer established trading relationships, meaning that



these requirements can create significant barriers to participation and may materially increase compliance costs.

2. Do you have any concerns with the proposal to initially limit SA MMO products to ASX-style cap contracts?

Response: Yes. We do have concerns with the proposal to initially limit SA MMO products to ASX-style cap contracts. While ASX is the preferred platform, particularly given the benefits of central clearing and reduced bilateral credit exposure, the product set should not be restricted to caps alone. Swaps also need to form part of the MMO suite to ensure that obligated participants have access to a sufficiently liquid and diverse set of hedging instruments.

Relying solely on ASX-style caps creates several challenges. Historically, the ASX has listed both caps and swaps, and the market has benefited from being able to choose between the two depending on liquidity conditions, risk preferences, and the shape of the forward curve. Limiting products to caps narrows the market unnecessarily, especially when the prescribed 5% maximum bid–offer spread can be extremely tight in practice, which is operationally restrictive and may not reflect real trading conditions.

In addition, credit issues will be more pronounced if participants are pushed away from the ASX platform. Outside the exchange, not all counterparties are able to deal with one another due to bilateral credit requirements, limited trading relationships, and uneven balance sheet capacities. Central clearing through ASX alleviates many of these issues by enabling participants to transact without needing bilateral credit agreements. Restricting the product set to caps risks reducing the number of participants able to comply efficiently, especially smaller entities who already face heightened credit and collateral-related constraints.

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3. Would adopting a different (relaxed) bid/offer spread (Option one), or lowering the daily volume requirement (Option two) in the prompt quarter be an effective risk management tool for obligated participants? Which option do you prefer?

Response: No. We do not consider either Option One or Option Two to be an effective or appropriate risk-management tool for obligated participants. Our position is strongly that the prompt quarter should be excluded from any initial implementation of the MMO.

Attempting to “correct” this through either wider spreads or lower volume requirements risks creating distortions without addressing the root cause. A relaxed bid/offer spread would not meaningfully improve true trading conditions, while reducing the daily volume requirement simply lowers the bar without improving participant capability or market outcomes. In both



cases, these adjustments would mischaracterise a normal and expected feature of short-dated hedging markets as a liquidity fault.

4. What are the risks or complexities with adopting either of the options proposed in Question 3 above?

Response: Attempting to modify MMO settings in the prompt quarter risks creating structural distortions without improving market function.

Imposing either of the proposed options would also introduce several potential complexities for obligated participants:

Directors' duties: Directors are required to ensure that trading and risk-management decisions are made prudently, particularly in periods close to delivery when exposure is most sensitive. Forcing participants to quote or transact in the prompt quarter, contrary to prudent commercial judgment, risks placing directors in a position where MMO compliance conflicts with their statutory duties.

Operational constraints relating to plant and equipment: As the market approaches real time, participants must manage dynamic operational risks, including outages, fuel constraints, maintenance schedules and unexpected equipment performance. These conditions naturally reduce the appetite to take on additional financial exposure in the prompt quarter and make enforced quoting or trading obligations inappropriate.

PASA and system obligations: Participants must submit accurate and timely PASA information and manage reliability obligations that often tighten materially in the prompt quarter. Imposing MMO requirements during this period could conflict with, or distract from, these core operational and system-security responsibilities.

5. What is your preferred MMO trading window, 11:00 – 11:30 am or 3:30 – 4:00 pm (AEST) and why?

Response: Our preferred trading window is 11:00-11:30am as it provides a more stable and operationally manageable period.

6. Are there any risks with not stipulating a minimum firmness rating for SA MMO products?

Response: We are unsure as to the reasoning for removing the minimum firmness rating for the SA MMO, where participation in the MMO is determined by a published list of entities, which itself is determined by firmness rating. This creates potential inconsistencies between



the policy purpose, the participant classification, and the operational requirements of the MMO.

7. Do you have a view regarding the requirement for, and a potential approach to, including a mechanism to ensure bid/offer spreads are available for a minimum time each trade period (unless traded)?

Response: Yes, we view that the bid/offer spreads should be available for the entire trade period unless traded, or otherwise align with the existing MLO requirements in the NER which requires 25 minutes.¹

8. Are there any additional capabilities of competencies to those outlined in the consultation paper that the Scheme Regulator could consider incorporating in a platform approval process?

Response: Yes. If the aim of the MMO framework is to promote genuine market liquidity, then additional capabilities and competencies should be required of any platform seeking approval, particularly where over-the-counter (OTC) products are involved. Moving to an OTC-based model for MMO products introduces several practical limitations that appear not to have been fully considered.

In an OTC environment, the effective trading population is often extremely small. Even if there are ten nominal participants, it is common that half of them cannot trade with one another due to bilateral credit constraints. Without an ASX-style central clearing mechanism, each transaction requires either an established bilateral credit agreement or a long-form contracting process.

An OTC-only CAP product environment will materially limit the number of trades that can occur, directly undermining the intended liquidity-promoting function of the MMO.

We therefore re-enforce our position that the ASX is the most appropriate platform to implement the MMO, and reinforce that swaps should be allowed as part of the MMO.

9. Do you agree with our approach to managing the interplay of the RRO/MLO and SA MMO via the SA MMO exemption process?

Response: Yes, we agree that the AER is the appropriate body to manage the interplay between the RRO/MLO and the SA MMO, including decisions relating to exemptions.

However, if the exemption process is intended to operate in parallel with the RRO framework, then it is important that the SA MMO adopts a deemed-exemption approach,

¹ [cl 4A.G.18\(e\)\(4\)](#)



rather than requiring participants to proactively lodge notifications for every individual instance where an exemption may be required.

Under the proposed settings, particularly the requirement for participants to meet obligations for at least 5 days within any rolling 20-day period, a process that requires writing to the AER for each occurrence would create an excessive administrative burden. It would also introduce ambiguity, as participants would lack clarity around when an exemption is automatically applied and when specific engagement with the AER is required.

To ensure practicality, transparency, and consistency with the RRO, the framework should therefore:

- Implement a clear deemed-exemption mechanism, triggered automatically under defined conditions.
- Avoid requiring participants to write to the AER for every individual instance, as this is unnecessarily cumbersome and does not materially improve regulatory oversight.
- Provide clear guidance from the AER on how exemptions will operate in practice, including how they will interpret obligations alongside rolling compliance windows.

10. Does the proposed implementation timeframe for the SA MMO cause any concerns, or are there any further timing considerations that the Department should be aware of?

Response: Yes, the proposed implementation timeframe for the SA MMO does raise concerns. In particular, the prompt quarter issues remain unresolved, and we maintain that the prompt quarter should not form part of the initial implementation. As noted earlier, reduced hedging activity in the prompt quarter is driven by risk-management considerations, not structural liquidity failures, and introducing MMO obligations during this period would add unnecessary operational pressure.

In addition, the proposed commencement date around 1 July coincides with a range of significant market changes and operational demands. The market structure is undergoing substantial transition at this time, including major developments such as new interconnector infrastructure coming online, which will materially affect trading behaviour, risk positions, and forward-curve dynamics. Participants will already be navigating these structural shifts, and layering a new compliance mechanism on top of this introduces avoidable uncertainty and complexity.

Given these compounding factors, we consider the proposed timeframe to be challenging and potentially disruptive. A more measured approach would help ensure a smoother and more effective implementation of the SA MMO.

11. What design elements could be included in the SA MMO framework implemented under the FERM Regulations to facilitate a smooth transition to a NEM-wide MMO?



Response: To support a smooth and efficient transition from the SA-specific MMO to a future NEM-wide MMO, several design elements should be incorporated into the SA MMO framework from the outset.

First, the framework should prioritise consistency of definitions, obligations, and compliance mechanisms with the broader NEM, and existing NER functions.

Wherever possible, the SA MMO should align with existing practices, as set out below:

Requirement	SA MMO (Proposed)	NER (Existing)
Number of trading periods to meet liquidity obligation	20 day period less 5 days	Number of days in the month less 10 days ²
Exemptions re: insolvent trading provisions of the corporations act	Not explicitly addressed in the information provided,	An MLO generator is not required to perform its liquidity obligation in the certain circumstances including ... if doing so would constitute a breach of sections 588G or 588V (i.e. insolvency provisions) of the <i>Corporations Act 2001</i> . ³
		The AER can set out any other circumstances in its MLO Guidelines where a MLO generator is not required to perform its liquidity obligation. ⁴
Bid/Offer Spread	5% bid/offer spread	10% or \$1 per MWh (whichever is the higher amount) ⁵

² [cl 4A.G.18\(c\)](#)

³ [cl 4A.G.21\(a\)\(1\)](#)

⁴ [cl 4A.G.21\(a\)\(4\)](#)

⁵ [cl 4A.G.18\(h\)\(3\)](#)



Duration bid offers must be available within a 30 minute trading period	Open to consultation	25 minutes ⁶
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Finally, the framework should include transparent guidance and clear governance pathways for how the SA MMO would evolve into a national mechanism, such as defined review points, triggers for expansion, and coordination processes between the SA Department, AER, and national bodies.

By embedding these elements at the design stage, the SA MMO can serve as a practical and efficient foundation for a future NEM-wide MMO, avoiding unnecessary redesign and ensuring a coherent, market-wide liquidity framework over time.

⁶ [cl 4A.G.18\(e\)\(4\)](#)