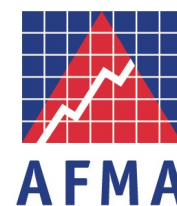


22 March 2024

ASX



Submitted by email: [commodities@asx.com.au](mailto:commodities@asx.com.au)

## Electricity Peak Futures

The Australian Financial Markets Association (**AFMA**) is responding to the ASX's consultation paper on changes to the Australian Peak Load Electricity Futures Contract.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 130 of Australia's leading financial market participants, including many energy firms who are key participants in the National Electricity Market (NEM) and the related derivatives market.

### Key Points

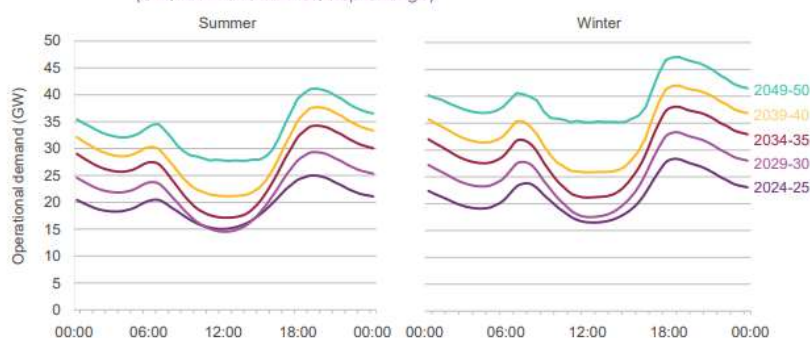
- **The current peak product is no longer fit for purpose.**
- **The changing nature of the NEM will require ongoing work to ensure financial products remain fit for purpose.**
- **Option 1 (evening period) – is the preferred of the two options presented.**

### 1. Changing nature of demand

AFMA agrees with the ASX's assessment that the changing nature of demand and generation in the NEM has reduced the usefulness of the existing Peak Load Futures Contract as a hedging instrument; and that it is appropriate to consider developing alternative products that are better suited to manage participants risks now and in the future.

When the Peak Load Futures Contract was developed peak electricity demand was aligned with the workday and the early evening. The recent dramatic increase in variable renewable generation has changed the nature of operational demand in the NEM as large quantities of embedded solar generation have decreased operational demand during the day (see chart below). This has led to generally low or negative prices during the day and higher prices in the evening and on winter mornings when solar generation is unavailable. AEMO anticipates this trend will continue.

**Figure 8** Average operational demand by time of day and season, NEM  
(GW, 2024-25 to 2049-50, Step Change)



AEMO – p28 Draft 2024 Integrated System Plan

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In this market, participants face the greatest risk during periods of high operational demand during the evening peak and, in the southern states, on winter mornings. AFMA therefore considers that it is appropriate to develop products that better align with these risks. But cautions that the market is in a period of rapid change and is yet to coalesce around a single replacement product, so we anticipate there will be an ongoing need to develop other products and to monitor the suitability of all products.

## 2. Option 1 preferred

AFMA's members have been having an ongoing dialogue about the appropriateness of the current suite of listed and OTC electricity financial products. They agree with the ASX that the current peak product is no longer appropriate but, as yet, no single product has emerged as a replacement. Despite this, we see merit in the ASX replacing the current peak product as a way to start the process of developing a range of new products. The consensus view of our members is that Option 1's evening peak product is the best place for the ASX to start, as it is the most versatile product that will have year-round value to our members in all NEM regions. Although a number of members point out that currently the most traded OTC super peak product is a 5-hour product (16:00 - 21:00) and they suggest that this may be preferable to your proposed 4-hour product.

Option 2's morning and evening peak is less preferred as our members consider the morning peak will only be valuable in southern regions during winter quarters and therefore is unnecessary in the summer quarters and northern regions. Despite this our members are interested in developing a separate morning peak product. They consider that a separate product would work better than the combined product proposed in Option 2, as it would give participants greater flexibility to match their hedging positions to their risks.

### AFMA Recommendations

- i. The current Peak Load Electricity Futures Contract should be replaced with an evening peak product similar to Option 1.
- ii. ASX should consider implementing a 5-hour evening super peak product.
- iii. Option 2 should not be implemented, but ASX should consider implementing a separate morning peak product.

## 3. Future developments

As discussed above, AFMA's members consider the energy market is in a state of adjustment and as a result, it is difficult to determine the most suitable products. We therefore think it is likely more new products will have to be developed in future. Our members' experience is that successful products tend to emerge in OTC markets before moving to listed markets and we encourage the ASX to continue to work with the market to develop them.

At this stage, most of our members' interest is in products that can help them manage demand when solar generation is not available. Some of the options AFMA and its members are currently discussing, include:

- a) Inverse solar – a product covering all hours when solar is not typically generating
- b) Winter morning peak – a seasonal morning peak product
- c) 8 hour blocks – breaking the day into 3 blocks covering: morning, daytime and evening

They also see value in developing caps that cover the same periods of the day as the swaps.

AFMA considers that possible next steps could include developing a winter morning peak product, to compliment the evening peak product in cooler regions during winter, and considering if longer morning and evening products (possibly 8 hours) might better align with the underlying risk and provide better incentives

for participation by long duration storage and thermal generation. AFMA is keen to continue the conversation about the development of new electricity products with ASX.

**AFMA Recommendations**

- iv. ASX should continue to engage with the market to develop additional listed electricity products.

**4. Implementation**

AFMA's members have expressed a range of views on ASX's proposed implementation approach. The majority of members support listing any new product as a separate new product, rather than changing the specification of the existing peak product. But a number of members support ASX's proposal to vary the contract specification on the basis that it will allow the new product to be available sooner.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me at [lgamble@afma.com.au](mailto:lgamble@afma.com.au) or 02 9776 7994.

Yours sincerely,



Lindsay Gamble

**Head of Energy and Carbon**