



**Government
of South Australia**

Department for
Energy and Mining

Firm Energy Reliability Mechanism

Market Liquidity Obligation

Consultation Paper - Response
Template





Submitted by:

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Date	16 February 2026
Please indicate any parts of your submission to be treated as confidential	None

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:

We encourage DEM to also set a clear process for obligated parties to nominate an entity that will be undertaking the trading activity on their behalf, which will boost transparency in the market.

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

Response:

The consultation paper also does not provide sufficient details on which cap strikes would qualify, stating "it is proposed to initially limit SA MMO products to standard ASX-style cap



contracts (or equivalent).” While we take it that the standard \$300/MWh would be acceptable, AFMA seeks clarity as to whether \$600/MWh is. Market participants within AFMA’s membership have expressed that it would be beneficial to offer \$600/MWh caps, noting that OTC platform, TOD Markets, does currently list \$600/MWh strike caps.

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:

AFMA does not believe the prompt quarter should be captured as part of the SA MMO, we expand on the risks and negatives of this in response to question 4 and recommend its exclusion.

We do however support relaxing the bid/offer spread for all other quarters captured by the MMO, but consider that the spread of 5% is too narrow for caps and when considering the relative lack of current liquidity. Under the current ASX Market Making scheme, it is 10% or \$2 (whichever is greater) whilst for the existing MLO requirements in the NER it is 10% or \$1/MWh. We believe this to be a more appropriate spread specification and encourage DEM to adopt a wider spread specification of between 10%- 20%, preferably 20%, at least as a transitional arrangement.

At the same time, we also support DEM lowering the daily volume requirement for all other quarters. AFMA therefore encourages DEM to adopt both options, but in both cases, the prompt quarter should not be captured as part of the SA MMO.

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

Response:

Including the prompt quarter increases a participants’ exposure to speculative trading which tends to occur closer to real time/ and if the SA MMO applies to the current quarter, it will negatively impact liquidity. It is important that retailers and C&I should be hedged before the risk period and the current proposed structure discourages this. Therefore, as above, we recommend that the prompt (current) quarter be excluded given spot volatility risk.

Including the current quarter allows natural buyers to delay contract hedging. By contrast, an MMO that did not apply to the current quarter would encourage natural buyers to hedge their load before the quarter starts, utilising the SA MMO if necessary. This would increase overall contracting levels and therefore reduce both spot and contract volatility.



Requiring generators to post prices in the current quarter creates a disincentive to completely contract generation capacity prior to the quarter as they would be exposed to selling SA caps through the SA MMO which they cannot back with their generation portfolio.

It is also important to note that obliging SA MMO participants to trade during the prompt quarter is likely to place them in danger of breaching their risk limits, resulting in them being forced to trade to manage their limits, which will have a material impact on the cost of the scheme and ultimately lead to higher consumer prices. Furthermore, sensitivity to prices arise as expectations around prices ultimately shape how parties manage risk. When a party has the option to trade the current quarter right up to the end, this reduces prices sensitivity and thus, in turn, reduces liquidity.

As an additional recommendation, while we support and accept that the minimum volume constraint is specified per day; it would be beneficial to include a provision that relieves the SA MMO constraint if a material amount is traded as to not disincentivise higher volume days. For example, if an entity traded 30MW in one day, it should not be expected to reach the minimum volume requirement the following day.

AFMA also notes that due to natural market uncertainty, there is less trading during the later scheme periods. While some small volume trades will occur for price discovery purposes, participants do not generally choose to trade larger volumes during later period due to the level of market uncertainty. We therefore recommend a smaller MW requirement for that period.

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

Response:

Market participants have varying preferences on the most opportune SA MMO trading window. Therefore, AFMA believes it would be most appropriate to determine that participants are given the option to trade in whichever is their preferred period.

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

Response:

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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)?
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Response:

To align with the existing obligations in the NER under the MLO, AFMA recommends that 25 minutes (from the 30-minute window) would be the most appropriate approach.

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:

While currently there is only one AER approved MLO venue, AFMA understands that other applications for approval are being processed by the AER.¹ AFMA therefore believes it important that DEM ensure different types of platforms can be seamlessly approved, at pace with the national direction. On this basis, AFMA encourages DEM to engage all interested platforms.

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:

AFMA has consistently been critical of the RRO and does not consider that it has achieved its objective of boosting investment in controllable capacity.² We consider that the NEM Review's recommendations provide a better approach to facilitating the construction of controllable capacity and note that the review recommended repealing the RRO.

On this basis, we support DEM's decision to pause implementation of the FERM reliability obligation as we consider that it would impose significant costs on market participants without delivering benefits to consumers.

AFMA's preference remains that SA does not establish a separate SA MMO framework as it will ultimately become redundant once the national MMO begins. But we do nevertheless consider that the proposed exemption framework appears broadly workable and will ensure that the SA MMO can work with the existing MLO.

We do however think it important that a deemed exemption framework be adopted. The proposed requirement to have participants write to the AER for each occurrence, even under the 5 exemptions, would create an unnecessary administrative burden.

¹ <https://www.aer.gov.au/documents/tod-markets-mlo-application>

² <https://afma.com.au/policy/submissions/2025/r41-25-firm-energy-reliability-mechanism-stage-2.pdf?ext=.pdf>



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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:

While we welcome DEM's decision to align with the national reforms, AFMA believes that the NEM review recommendations will address the SA Government's concerns and that an SA MMO will not solve the challenge of physical supply in SA, therefore making this work duplicative and not the greatest allocation of resources.

Further, AFMA has received feedback within its membership that the implementation timeframe does not provide sufficient time to enable the implementation of new systems and the necessary compliance settings to meet liability. This is a tight obligation in a relatively short period of time. As such, AFMA recommends that the SA MMO component of the scheme be deferred by a minimum of six months but ideally one year.

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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:
