



ASX Australian Peak Load Electricity Futures Contract Changes

Response to consultation

September 2024



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ASX Australian Peak Load Electricity Futures Contract

Purpose of this Paper

The purpose of this paper is to provide a summary of the feedback received during the consultation on the redesign of ASX's Australian Peak Load Electricity Futures Contract and to outline the changes that ASX intends to implement.

ASX would like to thank Market Participants for taking the time to provide detailed and thoughtful responses to this consultation as well as making time for follow up discussions. Your feedback forms an important part of the product design phase and is crucial to ensuring these contracts are fit for purpose.

A range of feedback was received, including suggestions for additional or alternative products. This paper provides a high-level summary of the feedback received and ASX's response to this feedback.

Background

In February 2024, ASX released a [consultation paper](#) seeking feedback on proposed changes to ASX's Australian Peak Load Electricity Futures Contract (Peak Load Contract) specification and implementation proposal. The consultation was initiated by requests from multiple Market Participants and industry groups to redesign the Peak Load Contract to better reflect the changing energy generation mix and make the contract fit for purpose.

Australian Electricity derivatives were first listed for trading on the ASX 24 market in September 2002 as a tool for Market Participants to hedge price exposure to the underlying National Electricity Market (NEM). At the time of listing, the Peak Load Contract was designed to provide coverage for periods of higher electricity demand and assist Market Participants in hedging price volatility during this period. Peak operational demand in the NEM typically occurred between the hours of 7am and 10pm on Business Days (Monday – Friday).

Since then, the installation of renewable generation, particularly rooftop solar in homes and businesses across Australia, has increased significantly resulting in a change to the NEM operational demand profile and periods of peak demand. This has impacted volume and Open Interest in the ASX Peak Load Futures Contract as the ability to hedge peak demand using the existing contract has declined due to the changing energy generation mix.

Summary of topics included in the consultation paper

Contract specification change

ASX proposed changing the definition of the Peak Load profile to the following:

- An **evening peak** (option 1) OR combined **morning and evening peak** (option 2) profile
- Standardised contracts across all regions
- 7 Day contract, rather than a 5 Day contract
- No shaping – i.e. a flat 1 MWh per each hour covered under the load profile

Implementation of change

Given the limited Open Interest in the existing contracts, ASX proposed to change the contract specification of the established Peak Load Contracts (Quarters: PN, PV, PQ, PS and Strips: DN, DV, DQ, DS) once Open Interest was zero, as opposed to listing a new Peak Load contract.

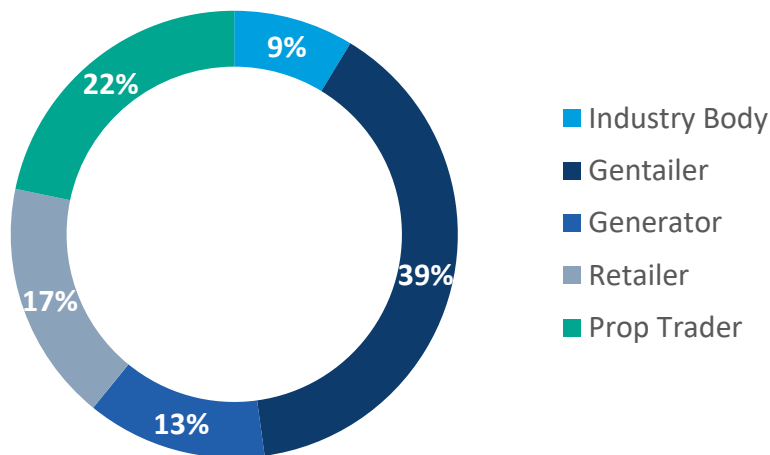
Overview of responses received

ASX received a combination of written responses and verbal feedback from a range of industry bodies and energy Market Participants.

The consensus was that the current contract specification is not fit for purpose and that speed to market for the redesigned product is an important factor given the changing energy landscape.

Below is a breakdown of respondents by participant type.

Survey Responses by Participant Type



Summary of consultation feedback and ASX response

Part 1. Change to Contract Specification

Question	Which peak load profile (Option 1 or Option 2) is your preferred option and why?
Summary of feedback	<p>74% of respondents favoured option 1 (evening peak) with some support for the listing of option 2 (a combined morning and evening peak contract).</p> <p><i>Support for option 1 (evening peak)</i></p> <p>Respondents in support of option 1 felt that an evening peak contract would be more liquid, aligns well with Over the Counter (OTC) market practices and the new peak definitions being offered by electricity retailers and network operators.</p> <p><i>Support for option 2 (combined morning and evening peak)</i></p> <p>Those respondents in support of option 2 felt that a morning contract would allow for additional hedging flexibility, particularly where demand may be greater in southern states and in winter. Respondents also felt that option 2 aligned better with the underlying NEM peak demand profile.</p>

Alternative suggestions

Other suggestions included listing three eight-hour blocks (00:00-08:00, 08:00 – 16:00 and 16:00-24:00), or a combination of eight and four hour blocks (two x eight hour and two x 4 hour) and the listing of separate morning and evening peak contracts.

Follow up feedback

Upon further follow up with respondents it became clear that the combined morning and evening Peak Contract was not ideal and there was more demand for a separate morning and evening Peak Contract.

Question	Do you agree with the proposed contract specification for your preferred profile as presented?
Summary of feedback	<p>There was strong support to extend the proposed evening definition (4pm – 8pm AEST) to 9pm or 10pm. These respondents felt the longer period will help to cover peak volatility later into the evening and will be more beneficial for retailers looking to hedge late evening risk.</p> <p>Some respondents felt that a four-hour evening window was more appropriate as this supports four-hour large batteries which are being installed under the governments Capacity Investment Scheme.</p>
Question 3.	Do you foresee the peak demand profile changing again in response to generation and storage developments (e.g. battery storage) or other factors such as electric vehicles etc.? If so, when would you expect this to materially change the proposed peak demand profile?
Summary of feedback	<p>Respondents noted that there is a lot of uncertainty regarding future market developments and that the NEM is in a period of transition. However, the majority do not expect there to be a material impact to the demand curve until after 2030.</p> <p>There was strong support for ASX to engage with the market on an ongoing basis to keep abreast of new developments and potential futures contracts that could help the underlying market as the energy transition gathers pace.</p>

ASX response	<p>Based on the feedback received and strong support for evening peak, ASX plans to list an evening peak futures contract across all current contract regions (NSW, QLD, VIC and SA) covering the hours between 4:00pm – 9:00pm AEST (NEM time).</p> <p>In addition to this and based on the follow up feedback received from Market Participants, ASX plans to list a separate morning peak futures contract across all regions and quarters covering the hours between 6:00am – 9:00am AEST (NEM time). This will provide for more granular hedging and closer alignment with the underlying NEM demand profile.</p> <p>While there was some feedback that a morning peak futures contract would only be necessary in the southern states and primarily during winter, a review of the 2023 NEM demand profile shows reasonable demand during the morning period (as defined above) throughout the seasons.</p>
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Part 2. Implementation of change

Question	Should ASX change the definition of the peak load profile within the existing contract specification?
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Summary of feedback	<p>There was support to list a new product rather than changing the existing Peak Load Contract due to established Open Interest and a desire to list a redesigned contract as soon as possible as opposed to waiting for Open Interest to expire.</p> <p>This approach would allow the new redesigned product to trade alongside the existing product, avoiding any impact to established open positions.</p>
Question	Can you foresee any potential consequences of updating the product specification of the existing contracts, i.e. keeping the same commodity codes? If so, please provide details of the consequences in your response.
Summary of feedback	<p>There was concern from some participants regarding the forced settling of contracts with Open Interest. The respondent felt this was a deviation from standard practice which could impact the integrity and validity of other ASX contracts going forward.</p> <p>However, others were supportive of this approach as Open Interest is limited. There was also concern that listing new contracts could result in additional delays to availability.</p> <p>One respondent noted the interaction of the definition of the Peak Load profile in the Wholesale Demand Response Mechanism reimbursement rate. Changing the Peak Load profile definition of the existing Peak Load Futures Contract would impact the reimbursement rate. Listing a new Peak Load Futures Contract would avoid this</p>

ASX response	<p>ASX's initial preference was to maintain the existing commodity codes by encouraging Market Participants to close out open positions. Once Open Interest was zero, ASX could change the definition of the Peak Load Contract while maintaining the current commodity codes.</p> <p>However, following feedback received from Market Participants regarding potential unintended consequences of making such a change, ASX intends to list new separate morning and evening Peak Load Futures across each of the regions. The new contracts will trade alongside the existing Peak Load Contract which will expire naturally. ASX intends to freeze the listing of further Peak Load quarters under the existing contract codes (Quarters: PN, PV, PQ, PS and Strips: DN, DV, DQ, DS).</p>
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Part 3. Other considerations

Question	Do you foresee any unintended consequences as a result of the proposed changes?
Summary of feedback	<p>One participant noted that some OTC contracts may use ASX listed products as a benchmark for settling against.</p>
Question	Is there anything else that you would like to raise for consideration?
Summary of feedback	<p>One respondent suggested ASX use a new dedicated and descriptive name for the redesigned Peak Contract to avoid confusion with standard OTC Peak Contracts.</p> <p>Another respondent noted that the trading fees for the new contract should be adjusted to reflect the reduced contract hours.</p> <p>One respondent felt that the addition of a new Peak Load Contract may result in a small reduction in liquidity of the ASX Australian Base Load and Base Load \$300 Cap Electricity Futures.</p>

A few respondents suggested the addition of further variety among shaped contract listings such as morning peak, solar, evening peak, shoulder and overnight periods as well as a Cap product on the new peak contracts.

ASX response At this stage, ASX intends to list separate morning and evening Peak Load Futures Contracts across each of the regions. ASX will remain in close contact with Market Participants to determine if there is sufficient demand for additional contract variations going forward.

Implementation timeline

ASX has commenced work internally to deliver the redesigned Morning and Evening Peak Load Futures Contract, subject to final internal and regulatory approval. Indicative go live timing is currently Q1 2025.

Further updates on implementation timing will be communicated in due course via market notice.

Further discussion

If you or your organisation would like to discuss this topic further, please contact ASX (contact details on page 2).

Draft high level contract specifications, subject to final internal and regulatory approval

Product name	Australian Evening Peak Load Electricity Futures Contract – Calendar Quarter
Commodity Code(s)	NN, NQ, NV, NS Where N = NSW, Q = QLD, V = VIC and S = SA
Proposed Listing Date	TBC
Contract Unit	One megawatt of electrical energy per hour during the evening peak load profile, bought and sold in a region, as determined by the Market Operators of the Wholesale Electricity Pool Market conducted by the Australian Energy Market Operator (AEMO), over a period of a quarter.
Reference Price	<p>The regional reference price as determined by the Market Operator and calculated by AEMO, during the relevant period for purposes of invoicing physical deliveries of electricity occurring between 16:00 hours and 21:00 hours Monday – Sunday Australian Eastern Standard Time (“evening peak load profile”), in accordance with the following formula:</p> $RP = \frac{A}{B}$ <p>Where, RP = Reference Price A = the sum of all relevant base load spot prices for the region B = the total number of relevant base load spot prices for the region The reference price determined using the above formula shall be rounded to two decimal places.</p>
Settlement Months	March/June/September/December out to four Calendar Years and three Financial Years or three Calendar Years and four Financial Years.
Minimum Price Movement	e.g. AUD \$0.01 per megawatt hour
Final Trading Day	The last Business Day of the Settlement Month.
Settlement Day	The fourth Business Day following the Final Trading Day.
Settlement Method	Cash settled
Trading Hours	10:00am – 4:00pm
Block trade threshold	25 lots
EFP	Yes
Expiry Position Limit	N/A
Options	N/A

Product name	Australian Morning Peak Load Electricity Futures Contract – Calendar Quarter
Commodity Code	MN, MQ, MV, MS Where N = NSW, Q = QLD, V = VIC and S = SA
Proposed Listing Date	TBC
Contract Unit	One megawatt of electrical energy per hour during the peak load profile, bought and sold in a region, as determined by the Market Operators of the Wholesale Electricity Pool Market conducted by the Australian Energy Market Operator (AEMO), over a period of a quarter.
Reference Price	<p>The regional reference price as determined by the Market Operator and calculated by AEMO, during the relevant period for purposes of invoicing physical deliveries of electricity occurring between 06:00 hours and 09:00 hours Monday – Sunday Australian Eastern Standard Time (“evening peak load profile”), in accordance with the following formula:</p> $RP = \frac{A}{B}$ <p>Where, RP = Reference Price A = the sum of all relevant base load spot prices for the region B = the total number of relevant base load spot prices for the region The reference price determined using the above formula shall be rounded to two decimal places.</p>
Settlement Months	March/June/September/December out to four Calendar Years and three Financial Years or three Calendar Years and four Financial Years.
Minimum Price Movement	e.g. AUD \$0.01 per megawatt hour
Final Trading Day	The last Business Day of the Settlement Month.
Settlement Day	The fourth Business Day following the Final Trading Day.
Settlement Method	Cash settled
Trading Hours	10:00am – 4:00pm
Block trade threshold	25 lots
EFP	Yes
Expiry Position Limit	N/A
Options	N/A

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