



EnergyAustralia

LIGHT THE WAY

9 May 2017

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Australian Energy Market Commission

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Dear Commissioners

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AEMC, Secondary trading of settlement residue distribution units, 11 April 2017

EnergyAustralia is one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market.

We welcome the opportunity to provide comment on this proposed Rule change. While we note the limited scope of this consultation, we believe the broader issue of whether the current settings provide the appropriate incentives for networks to reduce congestion needs to be considered.

EnergyAustralia generally supports the existing settlement residue auction (SRA) mechanism, but we note there is room for improvement. Having considered the Westpac proposal, we consider that this represents an improvement to the existing process and as such we provide in principle support.

The key improvement that we consider the proposal brings is that it would likely address, to at least some extent, the current lack of liquidity in the settlement residues market. At present the lack of liquidity in settlement residues reduces the accessibility and usefulness of settlement residue auctions as a hedging instrument.

The Rule change and redesign of the auction process in 2010 extended the scope of each auction to three years. This has had the corresponding effect of increasing the division of units, thus reducing the unit size, to the point that these units have reduced utility for building an appropriate hedging position within the market. The required effort and timeframe over which analysis needs to be performed reduces the worth of any given auction due to these limitations. The proposal, as drafted, is likely to increase the capability for ongoing auctions to have a larger portion of the total settlement residues available to the market. That is, as more units are reintroduced into the market the quantity of units increase the potential benefits in participating in any given auction.

We consider that the proposal would enhance flexibility for participants using SRAs in their portfolio. The ability to sell units back into an auction is an improvement on the current mechanism, allowing participants to exit a position rather than waiting until settlement and making those units available for another buyer.

EnergyAustralia are keen to continue engaging with the Commission on this issue, as well as broader issues relating to network congestion, to ensure the best outcome for customers. If you would like to discuss this submission please contact me on 03 8628 1393.

Regards

Chris Streets
Industry Regulation Lead