

29 August 2017

Ms. Anne Pearson  
Chief Executive  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

## **Secondary Trading of Settlement Residue Distribution Units – ERC0220 Draft Determination**

Energy Networks Australia welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) Secondary Trading of Settlement Residue Distribution Units Draft Rule Determination (18 July 2017).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

As Transmission Network Service Providers (TNSPs) are not direct participants in the market, Energy Networks Australia continues to take a neutral position on the potential development and possible establishment of secondary trading arrangements for settlement residue distribution units.

It is our current understanding that the AEMC's draft more preferable rule:

- » enables, but does not mandate the implementation of the secondary trading of settlements residue distribution units through the existing settlements residue auctions facilitated by AEMO. In doing so, the AEMC acknowledges the oversight role of AEMO's Settlement Residue Committee upon changes to Settlement Residue Auction rules. This is best managed under existing National Electricity Rules arrangements established under clause 3.18.5;
- » requires AEMO to distribute auction proceeds to either the relevant TNSP or auction participant, as the case may be (expanding beyond the current arrangements where only TNSPs can receive proceeds);
- » requires AEMO to pay the relevant auction proceeds associated with the primary auction to the TNSP prior to paying out any auction proceeds to any secondary seller; and
- » prohibits the auction rules from placing additional risks related to secondary trading on AEMO and Transmission Network Service Providers (TNSPs).

## Secondary trading and counterparty default risk

Energy Networks Australia agrees with, and supports, the AEMC's Draft Determination in stating that market participants *"are better able to optimise their portfolios on (sic) a liquid secondary market, that is likely to increase the efficiency of inter-regional trade and competition in retail markets ... By extension, the benefits of the secondary market are received by the secondary buyers and sellers ... and therefore, these secondary buyers and sellers ... should bear the risks that arise in the secondary market"*<sup>1</sup>.

In terms of any potential secondary trading market counterparty default risk, given its acknowledged speculative nature, Energy Networks Australia supports the AEMC's view that TNSPs and consumers are not well placed, or are the appropriate parties to manage, or have any direct control over, these commercial risks.

In addition, Energy Networks Australia supports the AEMC's perspective that any secondary trading default risk needs to be managed<sup>2</sup>, despite its low probability of occurrence. This is best allocated to secondary trading auction participants. This exemplifies an 'efficient allocation of risks in the National Electricity Market'. At page 32 of the Draft Determination, the Commission states:

*"Risk allocation is considered efficient if it is being allocated to the party that has the information, ability and incentives to best manage the risks. Efficient allocation of risks in the NEM leads to lower costs for consumers as the adverse effects of default are better managed. Consumers are likely to benefit from preserving the symmetry of those that receive the benefits of auction proceeds with those that bear the risk of default"*<sup>3</sup>.

We also endorse the following AEMC statement:

*"Stakeholders indicated that the risk of default is not significant and therefore, is not a major risk for the TNSP to manage. The Commission is of the view, that given stakeholders views on this risk, it would be appropriate for auction participants to bear this risk"*<sup>4</sup>.

---

<sup>1</sup> Refer to the AEMC Draft Determination's Executive Summary, page ii, and to page 14, where the AEMC says: *"Secondary buyers and sellers are the recipient of the benefits of secondary trading"*.

<sup>2</sup> *Ibid*, page 31.

<sup>3</sup> *Ibid*, page 32.

<sup>4</sup> *Ibid*, page 31.

## Reference back to AEMO's Settlement Residue Committee

Energy Networks Australia considers that the AEMC should continue to refer any potential Settlement Residue Auction rule amendments back to AEMO's Settlement Residue Committee (SRC). It might be appropriate for the SRC to undertake further analyses as to what it considers are the best options to potentially establish secondary trading arrangements that are cognisant of, and fully aligned with the AEMC's draft preferred rule determination recommendations.

This could involve consultation, amongst other issues on:

- » collateralisation options, as well as other prudential arrangements and protocols
- » capping of trading units, and
- » establishing a default risk fund.

Energy Networks Australia and its members will be happy to engage on any of these likely SRC processes. Should you have any additional queries, please feel free to contact Norman Jip, Energy Network Australia's Senior Program Manager – Transmission on (02) 6272 1521 or [njip@energynetworks.com.au](mailto:njip@energynetworks.com.au).

Yours sincerely



**John Bradley**  
Chief Executive Officer