



## Secondary Trading Of Settlement Residue Distribution

Stakeholder submissions invited on new rule change request

### **Westpac has submitted a rule change request to enable auction based secondary trading of settlements residue distribution units.**

Enabling the Australian Energy Market Operator (AEMO) to provide a platform for secondary trading of settlements residue distribution units (units) may improve the liquidity of the secondary market. The improved liquidity of units may also increase interstate trade of electricity and increase competition.

However, transmission network service providers (TNSPs) may face greater risks that may negatively affect the amount of network charges paid by consumers.

### **Settlements residue auctions and secondary trading**

Regions of the national electricity market (NEM) have different levels of demand, differently priced generation and often very different wholesale prices resulting from the use of regional reference prices. This price separation of regional reference prices occurs when interconnector capacity is not sufficient to equalise the spot price flowing from a lower to a higher priced region.

In such cases AEMO collects more money in the higher priced region (from consumers) than it needs to pay for the generators that are located in the lower priced region. That money, aggregated over a calendar quarter, is called the settlements residue.

Since August 1999, AEMO and its predecessor, the National Electricity Market Management Company (NEMMCO) have been holding auctions where units, representing a right to a certain portion of that money could be purchased by auction participants.

While the settlements residue is distributed among successful auction participants proportionally to the number of units they have purchased, AEMO forwards the auction proceeds to the TNSPs located in the importing regions. Those TNSPs then decrease the network charges consumers would need to pay.

Units purchased at AEMO auctions may be traded bilaterally among auction participants, but secondary trading is not currently permitted through the auction process. This is because the rules only allow AEMO to pay auction proceeds to the TNSPs and not to auction participants.

### **The rule change request**

Westpac's rule change request would amend the NER to allow AEMO to distribute the relevant portion of the auction proceeds to the sellers of units.

This includes amending the NER to allow:

- auction participants to offer units for sale at AEMO auctions
- AEMO to pay for those units, cancel them and offer them for sale again
- AEMO to distribute part of the auction proceeds to the sellers of units
- AEMO to recover money from TNSPs, if payments fall short because of an auction participant default.

Westpac considers that these changes will provide a number of benefits, including:

- anonymous trading
- increased liquidity
- simplified execution of trades
- reduced default, credit and settlement risk for auction participants
- increased ability to optimise risks created by a changing portfolio.

**Westpac has made a rule change request to enable secondary trading of settlements residue distribution units through the existing auction process.**

## Issues for consideration

The rule change request raises a range of issues that are further explained in the consultation paper.

Stakeholders are invited to comment on these issues, which include whether:

- the current design of units supports inter-regional trade, and therefore, creating a liquid secondary market would increase the efficiency of inter-regional hedging
- default risk would be better managed by auction participants
- the value of units would increase as a result of this change
- secondary trading should be facilitated by AEMO.

The design, operation and effectiveness of the units and the auction process are only being examined to the extent necessary to inform assessment of the appropriateness of allowing secondary trading.

## Submissions

The consultation paper and Westpac's rule change request are available on the AEMC website. Stakeholders are invited to make written submissions in response to issues raised and the rule change request by **9 May 2017**.

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