



*In reply please quote A950781*

Mr Istvan Szabo  
Australian Energy Market Commission  
Level 6, 201 Elizabeth Street  
Sydney, NSW, 2000

Dear Mr Szabo

**Rule Change Proposal: Facilitation of Secondary Trading of Settlement Residue Distribution Units through the Settlement Residue Auction**

The Energy and Technical Regulation Division (Division) of the Department of Premier and Cabinet thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation paper on the *Facilitation of Secondary Trading of Settlement Residue Distribution Units Rule Change* proposal.

The Consultation Paper's inclusion of issues for further consideration relating to the functions of the Settlement Residue Auction (SRA) market do not arise from the rule change request from Westpac and are therefore beyond the scope of the AEMC's rule making powers under s. 91A of the National Electricity Law (NEL).

Under s. 91A of the NEL the AEMC is limited by its rule making powers to only making a more preferable rule if it is satisfied that, having regard to the issue or issues that were raised by the market initiated proposed Rule, the more preferable Rule will or is likely to better contribute to the achievement of the national electricity objective.

The issue raised in the rule change request in relation to secondary trading of settlements residue distribution units was to amend the National Electricity Rules (NER) to enable, but not require, the Australian Energy Market Operator (AEMO) to provide a platform for secondary trading of settlements residue distribution units. The rule change request did not propose any changes to the functions of the SRA market. Further, it did not propose a change to the Settlement Residue Committee's (SRC) role in the SRA market.

The Division notes that it would be for AEMO and the SRC to consider implementing secondary trading for Settlement Residue Distribution Agreement (SRDA) units through the SRA.

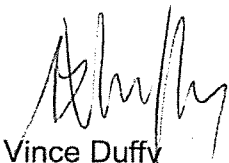
The Division supports the minor rule change request. The Division considers that the key aspect in facilitating secondary trading through the proposed NER change is to improve and increase liquidity. Liquidity in the energy contracting market serves two purposes as it produces reliable price signals essential to the development of futures and over-the-counter derivative markets and the ability for market participants to hedge their cash flow risks without owning generation portfolios.

In South Australia, liquidity has been low and the current settlement residue auction markets have shown limited volumes available for each trading quarter resulting in volatile pricing. This is most evident in the Victorian to SA clearing prices as noticed in AEMO's SRA reports at <http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Settlements-and-payments/Settlements/Settlements-Residue-Auction/Reports>

Increasing liquidity provides greater opportunities for auction participants to manage their positions in the market so that participants can build their settlements residue distribution units positions to their desired hedge levels, with the knowledge that they could reduce their positions if necessary in response to changing market conditions or portfolio requirements. With a greater supply of units being offered for auction (ie the secondary market pooled with the primary), this would reduce the price of risk so that wholesale purchase of electricity costs by retailers would be lower, benefitting all consumers in the long run and meeting the national electricity objective.

Please contact me if you require further any further clarification on (08) 8204 1724.

Yours sincerely



Vince Duffy  
Executive Director Energy and Technical Regulation

26 May 2017