



Draft National Electricity Amendment (Secondary Trading of Settlement Residue Distribution Units) Rule 2017

under the National Electricity Law to the extent applied by:

- (a) the National Electricity (South Australia) Act 1996 of South Australia;
- (b) the Electricity (National Scheme) Act 1997 of the Australian Capital Territory;
- (c) the Electricity - National Scheme (Queensland) Act 1997 of Queensland;
- (d) the Electricity - National Scheme (Tasmania) Act 1999 of Tasmania;
- (e) the National Electricity (New South Wales) Act 1997 of New South Wales;
- (f) the National Electricity (Victoria) Act 2005 of Victoria;
- (g) the National Electricity (Northern Territory)(National Uniform Legislation) Act 2015; and
- (h) the Australian Energy Market Act 2004 of the Commonwealth.

The Australian Energy Market Commission makes the following Rule under the National Electricity Law.

John Pierce
Chairman
Australian Energy Market Commission

Draft National Electricity Amendment (Secondary Trading of Settlement Residue Distribution Units) Rule 2017

1 Title of Rule

This Rule is the *Draft National Electricity Amendment (Secondary Trading of Settlement Residue Distribution Units) Rule 2017*.

2 Commencement

This Rule commences operation on [COMMENCEMENT_DATE].

3 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

4 Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 2.

Schedule 1 Amendment to the National Electricity Rules

(Clause 3)

[1] Clause 3.18.1 Settlements residue concepts

Omit clause 3.18.1(b) and insert:

- (b) A *settlements residue distribution agreement* or *SRD agreement* is an agreement between *AEMO* and an *eligible person* entered into following an *auction* under which:
 - (1) in all cases:
 - (i) *AEMO* agrees to issue a *SRD unit* to an *eligible person*;
 - (ii) the *eligible person* agrees to pay *AEMO* the *auction* clearing price for the *SRD unit*;
 - (2) where a secondary trading decision is made under clause 3.18.3A(a):
 - (i) the *eligible person* has a right to offer the *SRD unit* for sale in future *auctions* in accordance with the *auction rules*; and
 - (ii) if the *SRD unit* is sold in a future *auction*, *AEMO* is required to cancel the *SRD unit* in accordance with the *auction rules*.

[2] Clause 3.18.1 Settlements residue concepts

In clause 3.18.1(c)(2), omit the words “clause 3.18.1(c)” and substitute “paragraph”.

[3] Clause 3.18.1 Settlements residue concepts

Omit clause 3.18.1(d) and substitute:

- (d) Subject to clause 3.18.4, *AEMO* must use the portion of the *settlements residue* allocated to a *directional interconnector* remaining after applying the relevant *jurisdictional derogations* under chapter 9 (as determined by applying the principles referred to in clause 3.6.5) to:
 - (1) distribute *settlements residue* to relevant *eligible persons* holding *SRD units*; and
 - (2) recover the *auction expense fees*.

[4] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(a) omit “enter into” and substitute “be issued with *SRD units under*”.

[5] Clause 3.18.2 Auctions and eligible persons

Omit clause 3.18.2(b) and substitute:

- (b) *AEMO* may only enter into a *SRD agreement* with a person (called an *eligible person*) who satisfies the following criteria:
 - (1) the person is a *Market Customer*, a *Generator* or a *Trader*, or a person seeking to be eligible for registration as a *Trader* under rule 2.5A; and
 - (2) the person satisfies any criteria specified in the *auction rules*, which criteria must comply with paragraph(g).

[6] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(c), after the word “with” insert “this rule 3.18 and”.

[7] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(f), omit the words “clause 3.18.2” and substitute “paragraph”.

[8] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(g), after the words “AEMO may enter into SRD agreements must” insert “be consistent with paragraph (b),”.

[9] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(g)(4)(i), after the word “have” insert “previously”.

[10] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(g)(5), omit the words “clauses 3.18.2(g)(1)-(2)” and substitute “subparagraphs (1) or (2)”.

[11] Clause 3.18.2 Auctions and eligible persons

In clause 3.18.2(g)(5a), omit the words “clause 3.18.2(g)” and substitute “subparagraph”.

[12] Clause 3.18.3 Auction rules

In clause 3.18.3(a), insert “In all cases,” at the beginning of the clause.

[13] Clause 3.18.3 Auction rules

In clause 3.18.3(a)(6), omit the words “clause 3.18.3(a)(1)” and substitute “subparagraph (1)”.

[14] Clause 3.18.3 Auction rules

After clause 3.18.3(a), insert:

- (a1) Where a secondary trading decision is made under clause 3.18.3A(a), *AEMO* must amend the *auction rules* to set out:
 - (1) a right for an eligible person that holds a *SRD unit* to offer that *SRD unit* for sale in another *auction* in accordance with the *auction rules*;
 - (2) if an *eligible person* offers a *SRD unit* for sale in an *auction*, a right for *AEMO* to cancel that *SRD unit* in accordance with the *SRD agreement* and the *auction rules*;
 - (3) the requirements for cancellation of *SRD units* by *AEMO*; and
 - (4) a mechanism for calculating and distributing *auction amounts*.

[15] Clause 3.18.3 Auction rules

Omit clause 3.18.3(b)(3) and substitute:

- (3) the price for each *SRD unit* to be paid by *eligible persons* will be the same for all *SRD units* sold in the same *auction* and will be equal to the *auction* clearing price in respect of the *directional interconnector* for the *auction*; and

[16] Clause 3.18.3 Auction rules

Omit clause 3.18.3(d) and substitute:

- (d) *AEMO* may amend the *auction rules*:
 - (1) at any time, with the approval of the *settlement residue committee* and in accordance with the *Rules consultation procedures*; or
 - (2) if *AEMO* has consulted to the extent practicable in the circumstances in relation to the proposed amendment, the amendment has the support of at least three quarters of the members of the *settlement residue committee*, and *AEMO* considers the amendment is urgent.

[17] New Clause 3.18.3A Secondary trading of SRD units

After clause 3.18.3, insert:

3.18.3A Secondary trading of SRD units

- (a) *AEMO* may, with the approval of the *settlement residue committee*, decide to implement secondary trading of *SRD units* by *eligible*

persons in accordance with this rule 3.18 and the *auction rules* at a specified date (**secondary trading decision**).

- (b) Before the date specified under paragraph (a), *AEMO* must amend the *auction rules* in accordance with clause 3.18.3(d)(1) to include the requirements specified in clause 3.18.3(a1).
- (c) The cancellation of a *SRD unit* by *AEMO* pursuant to the *auction rules* does not terminate the underlying *SRD agreement* between *AEMO* and the *eligible person* under which that *SRD unit* was issued, and, for the avoidance of doubt, does not affect the obligation of:
 - (1) the *eligible person* to pay for the *SRD unit* issued to it under the *SRD agreement*; or
 - (2) *AEMO* to pay for cancellation of the *SRD unit* under the *SRD agreement* in accordance with the *auction rules* and this rule 3.18.

[18] Clause 3.18.4 Proceeds and fees

Omit clause 3.18.4(a) in its entirety and substitute:

Amounts to be paid to AEMO by eligible persons

- (a) Each *eligible person* must pay *AEMO* the *auction* clearing price for each *SRD unit* purchased by the *eligible person* in an *auction* in accordance with the relevant *SRD agreement* and the *auction rules*.

Amounts to be paid to Network Service Providers by AEMO

- (a1) Subject to paragraph (a2), in respect of a *primary SRD unit* issued by *AEMO* to an *eligible person*, *AEMO* must pay the relevant *Network Service Provider* the *auction* clearing price in respect of the *primary SRD unit* (**primary sale price**)
- (a2) *AEMO* may pay the relevant *Network Service Provider* less than the primary sale price in respect of a *primary SRD unit* if the *total SRD unit proceeds* paid to *AEMO* are less than the primary sale price.
- (a3) If the shortfall referred to in paragraph (a2) occurs, *AEMO* must pay the relevant *Network Service Provider* the *total SRD unit proceeds*.

Note

The *total SRD unit proceeds* will only be less than the primary sale price if one or more *eligible persons* default on their payment obligation under *SRD agreements*.

- (a4) Subject to clause 3.6.5(a)(4), clause 3.6.5(a)(4A) and paragraphs (b) and (c), *AEMO* must distribute to the relevant *Network Service Provider*, any portion of the *settlements residue* allocated to the

directional interconnector in respect of which a *SRD unit* has not been issued under a *SRD agreement*, in accordance with the principles in clause 3.6.5 in relation to the allocation and distribution of *settlements residue* attributable to *regulated interconnectors*.

Amounts to be paid to eligible persons by AEMO

- (a5) Where a secondary trading decision is made under clause 3.18.3A(a):
- (1) subject to subparagraph (2), *AEMO* must pay an *eligible person* in respect of a *secondary SRD unit* issued to that person that is subsequently cancelled by *AEMO* following the sale of that *secondary SRD unit* in an *auction*, the *auction* clearing price for that *auction* (**secondary sale price**);
 - (2) *AEMO* may pay an *eligible person* less than the secondary sale price for a *secondary SRD unit* if the *total SRD unit proceeds* are less than the sum of the primary sale price and the secondary sale prices *AEMO* would otherwise be required to pay to relevant *Network Service Providers* under paragraph (a1) and to *eligible persons* under subparagraph (1); and
 - (3) if the shortfall referred to in subparagraph (2) occurs, *AEMO* must distribute amongst *eligible persons* an amount equal to the *total SRD unit proceeds*, less an amount equal to the primary sale price, in accordance with the *auction rules*.

Notes

1. The *total SRD unit proceeds* will only be less than the sum of the primary sale price and secondary sale prices if one or more *eligible persons* default on their payment obligation under *SRD agreements*.
 2. An amount equal to the primary sale price is paid in priority to the relevant *Network Service Provider*.
 3. *AEMO* has discretion under clause 3.18.1(d) to pay any shortfall out of *settlements residue*.
- (a6) For the avoidance of doubt, if the shortfall referred to in paragraph (a5)(2) occurs, then *AEMO* may recover the shortfall in accordance with a mechanism specified in the *auction rules*, provided that the *auction rules* cannot allow *AEMO* to pay the relevant *Network Service Provider* less than the amount required by paragraph (a1).

[19] Clause 3.18.4 Proceeds and fees

In clause 3.18.4(c) omit the words “clause 3.18.4(a)(2)” and substitute “paragraph (a4)”.

[20] Clause 3.18.4 Proceeds and fees

In clause 3.18.4(e) after the words “to *AEMO* under *SRD agreements*” insert “and any amounts payable by *AEMO* to *eligible persons* under *SRD agreements*”.

Schedule 2 Amendment to the National Electricity Rules

(Clause 4)

[1] Chapter 10 New Definitions

In Chapter 10, insert the following new definitions in alphabetical order:

primary SRD unit

A SRD unit that:

- (a) has not previously been the subject of another *SRD agreement*; or
- (b) has previously been the subject of another *SRD agreement* but became the subject of another *SRD agreement* through a reauction of that *SRD unit* and not because it was offered by an *eligible person* for sale in an *auction*.

secondary SRD unit

A *SRD unit* that has previously been the subject of another *SRD agreement* and is not a *primary SRD unit*.

SRD unit

A unit that represents a right for an *eligible person* to receive a portion of the net *settlements residue* under clause 3.6.5 allocated to a *directional interconnector* for the period specified in a *SRD agreement* entered into between that *eligible person* and *AEMO* in respect of that right.

total SRD unit proceeds

The amounts paid to *AEMO* in respect of the purchase by *eligible persons* of:

- (a) a *primary SRD unit*;
- (b) any *secondary SRD unit* issued as a result of the cancellation of the *primary SRD unit* that represents the same underlying right to *settlements residue*; and
- (c) any *secondary SRD unit* issued as a result of the cancellation of any other *secondary SRD unit* that represents the same underlying right to *settlements residue*.

[2] Chapter 10 Substituted Definitions

In Chapter 10, substitute the following definition:

auction amounts

All amounts:

- (a) payable by *AEMO* to *eligible persons* under *SRD agreements*; or
 - (b) distributed to *Network Service Providers* under clause 3.18.4; or
 - (c) recovered by *AEMO* under clause 3.18.4 or the *auction rules*, including *auction expense fees*; or
 - (d) payable by *eligible persons* to *AEMO* under *SRD agreements*.
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