

20 March 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Sir/Madam

Re: GRC0023: National Gas Amendment (STTM Settlement Surplus and Shortfall) Rule 2014

Lumo Energy welcomes the opportunity to comment on the Australian Energy Market Operator's (AEMO) rule change request.

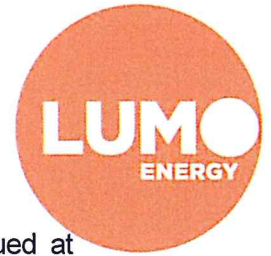
Lumo Energy is 100% owned by Infratil Limited, a company listed on the New Zealand and Australian Stock exchanges. Lumo Energy currently retails gas and electricity in Victoria and New South Wales, and electricity in South Australia and Queensland. Lumo Energy is one of the largest second tier retailers.

Lumo Energy supports the proposed rule change because it seeks an amendment to the National Gas Rules (NGR) for the purpose of rectifying an unintentional consequence for Short Term Trading Market (STTM) Trading Participants from a previous rule made by the Australian Energy Market Commission (the Commission) in June 2013.

The original rule change request AEMO submitted, aimed to strengthen the "cost to cause" principle in the deviation pricing design in the STTM and to simplify and improve the efficiency of deviation pricing. They considered that there was a misalignment between costs to the market resulting from Market Operator Service (MOS) and income to the market from deviation charges and payments in the STTM.

Unfortunately, AEMO's June 2013 rule change introduced a principle to guide the allocation of any settlement surplus or shortfall between STTM Trading participants that was, on implementation, inconsistent with the intended design outcomes of the original rule change. This rule change prevented the equitable distribution of settlement shortfall charges where they are not attributable to identifiable causes.

As there may be a transfer of risk that results from excessive MOS or overscheduling of contingency gas from larger to smaller trading participants under the rule as drafted, Lumo Energy consider it to be inconsistent with the



National Gas Objective. AEMO estimates that this risk transfer may be valued at up to \$200,000 in a single month.¹

For this reason, Lumo Energy supports the current rule change proposal on the basis that it will:

- enable financial risks caused by factors outside of the control of Trading Participants to be allocated appropriately;
- reduce the barriers to entry in the STTM for potential new trading participants, especially smaller players.

Lumo Energy thanks the Commission for the consideration of our submission.

For any enquiries regarding this submission or to discuss this submission further, please contact Con Noutso Wholesale Regulatory Manager on 03 9976 5701.

Yours sincerely,

per 

Justin Mulder
General Manager, Wholesale
Lumo Energy Australia Pty Ltd

¹ Australian Energy Market Operator, 2013, Rule Change Request Settlement Surpluses and Shortfalls, Page 8