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Australian Energy Market Commission
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Lodged electronically: www.aemc.gov.au (ERC0220)

Dear Commissioners,

AEMC, Secondary trading of settlement residue distribution units – Draft Determination, 18 July 2017

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market.

We welcome the opportunity to provide further comment on the proposed rule change to facilitate secondary auctions of settlement residue distribution units (units). We continue to support the change as proposed by Westpac and do not support the revised rule proposed by the AEMC in the draft determination. The method proposed by the AEMC, which shifts the default risk from Transmission Network Service Providers (TNSP) to secondary buyers and sellers, will inhibit liquidity thereby undermining the expected benefits of the change.

Increased liquidity is one of the primary benefits of the proposed change. The improved trading efficiency will also enable participants to better manage inter-regional risk in their portfolios over time, leading to reduced costs to supply energy. By transferring the entire risk of counter-party default from TNSPs to secondary buyers and sellers, market liquidity is likely to be restricted. As secondary participants are then trading with anonymous counterparties with unknown risk profiles, they face increased risk which is likely to reduce market engagement and subsequently market liquidity.

Whilst we recognise the AEMC's concerns about increased, and asymmetrical risk, being carried by the TNSPs, we believe there are alternative mechanisms for allocating the risk that will ensure benefits of the change are realised.

The AEMC has expressed particular concern that TNSPs will risk bearing the loss of a lower secondary auction value but will not have access to the gains of a higher secondary auction value. One method for removing this asymmetry would be to require secondary sellers to pay any losses to AEMO immediately, but only receive gains when the final auction for the relevant quarter has been held. Using this approach, the level of risk borne by the TNSP and AEMO is unchanged, and the change in risk created by the secondary sale is borne by the secondary seller. For example, if the sale price of a unit was $10 in the first auction and $8 in the secondary auction, the secondary seller would pay the loss of $2 directly to AEMO on the day of the secondary auction and the obligation to pay the remaining $8 in future would transfer to the secondary buyer.

In a secondary buyer default situation, the risk borne by the TNSP remains similarly unchanged and symmetrical. As the secondary seller has already paid their losses and divested their rights and obligations, the TNSP will be exposed to both lower and higher re-auction price outcomes, as is the case today.

Finally, we note AGL's request for a delay in implementation. We support an immediate implementation to ensure that benefits of making the change can be realised as soon as possible, ultimately delivering lower costs to customers.

In conclusion, we support the rule change as propose by Westpac. We believe that the changes proposed by the AEMC, to transfer rights and obligations to the secondary seller, creates an inferior SRA product that devalues the proposition and undermines the primary goals of the change, such as increased market liquidity. As the proposed rule change would not deliver any material improvements on the current market operation, we are unsupportive of the draft rule change as proposed by the AEMC.

If you would like to discuss this submission, please contact me on 03 8628 1393 or chris.streets@energyaustralia.com.au or Georgina Snelling on 03 8628 1126 or georgina.snelling@energyaustralia.com.au.

Regards

Chris Streets
Industry Regulation Lead