

27 September 2017

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney NSW 1235

Lodged online via: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear John,

### **Supplementary Submission: National Electricity Amendment (Secondary trading of settlement residue distribution units) Rule 2017**

I am writing to make a supplementary submission in relation to the AEMC's draft determination on the Secondary Trading of Settlement Residue Distribution (SRD) Units rule change. I understand that the AEMC is reconsidering aspects of its draft decision in light of submissions received following the release of the draft rule.

TransGrid understands that the intent of the draft rule is to improve liquidity in the market for SRD units by enabling the Australian Energy Market Operator (AEMO) to provide a platform for secondary trading of units. It is proposed that these units would be traded via an auction process.

In the primary auction for settlements residue, transmission network service providers (TNSPs) bear the risk that the purchaser at an auction may default on payment, and this risk is passed through to customers via transmission use of system (TUOS) charges.

This does not represent an efficient allocation of risk in the primary auction market, particularly where there are limited risk mitigation measures in place as part of the auction market design. As noted by the AEMC:

*“Current procedures require TNSPs to be responsible for the risk of other parties’ default that they may have no information, ability or incentive to manage”.<sup>1</sup>*

The AEMC's more preferable draft rule clarified that any shortfall in secondary auction proceeds could not be recovered from TNSPs. However, some stakeholders have suggested that TNSPs should bear default risk in the secondary market, as they do in the primary auction market.

TransGrid objects to this proposal, which imposes additional risk and uncertainty on TNSPs, which flows through to their customers. TNSPs would be required to 'make good' any losses resulting from a default, without the ability to effectively manage this risk. As noted by the

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<sup>1</sup> AEMC, *Draft rule determination, National Electricity Amendment (Secondary trading of settlement residue distribution units) Rule 2017*, 18 July 2017, p30.

AEMC in its draft determination, a secondary market could lead to an increase in speculation, which could increase the risk of default.

This risk of default, together with the potential for SRD units to be repeatedly auctioned in the secondary market, would increase the uncertainty of proceeds TNSPs receive from the auction process. This would flow through to greater uncertainty and volatility in transmission prices to customers.

TNSPs would be exposed to greater cash fluctuations, and possible cash shortfalls, which would need to be funded. In order to mitigate the risk of default and the uncertainty in cash flow, TNSPs' levels of funding would need to be reconsidered, with either more cash retained in the business, or higher levels of headroom negotiated in debt funding. These changes would lead to higher costs for TNSPs than provided for in the current regulatory framework.

If you would like to discuss any matter raised in this submission, please contact Rachel Houston in the first instance on 02 9284 3336.

Yours sincerely,



Anthony Meehan  
**Executive Manager, Regulation**