

9th May 2017

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference Code: ERC0220
Submission by email at: aemc.gov.au

Rule Change Proposal - Secondary Trading of Settlement Residue Distribution Units

Snowy Hydro Limited welcomes the opportunity to comment on the Secondary Trading of Settlement Residue Distribution Units (SRDU) rule change.

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5500 megawatts (MW) of generating capacity across New South Wales, Victoria and South Australia including the iconic 4100MW Snowy Mountains Hydro-electric Scheme. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro does **not** support the Rule change for the following reasons:

1. There already exist mechanisms which allow secondary SRDU to be traded amongst counterparties. We don't see the need for facilitated SRDU secondary trading platform.
2. The primary purpose of SRDU units is to facilitate hedging from one NEM region to another. SRDU units are not used for speculation.
3. A secondary/facilitated auction of SRDU units encourages more speculation by Speculators. This heightens the risk of default as outlined on page 11 of the consultation paper whereby TNSPs wear the risk. The AEMC states¹:

In other words, if an auction participant that previously purchased secondary units from a secondary seller defaults, its units will be offered for sale at a subsequent auction. If the subsequent auction's clearing price is lower than the auction price at which the defaulting participant bought its units, the shortfall will be recovered from the TNSP entitled to the auction proceeds.

¹ AEMC, Secondary Trading of Settlement Residue Distribution Units, Rule 2017, page 11.

Although there has been only one default of SRDU with the uncertainty that currently resides in the National Electricity Market (NEM) due to a changing generation plant mix and increase intermittent generation, the risk of default in the NEM is likely to be on the rise. A secondary/facilitated auction of SRDU encourages and facilitates more speculation. Hence this will increase the risk that TNSPs will receive less from SRDU auction proceeds.

4. For the reasons outlined above, we don't see the rationale for auction proceeds to be distributed to someone else other than TNSPs.

The SRDU and settlement residue auctions (SRA) have been operating satisfactorily since the year 2001. The Settlement Residue Committee has provided good governance of the auctioning of SRDU such that the SRA have evolved with the changing demands of NEM Participants. The last major change was the auctioning of SRDU out to three years. There is no desire for a full review of SRDU or the SRA.

The AEMC in the consultation paper has unnecessarily widen the review of SRDU and the SRA. In particular we believe questions 1 to 8 are out of context and unnecessary. It was not the Rule change Proponents intent to open the Rule change to questions about the merits of the primary market for SRDU.

Snowy Hydro also disagrees with some of the observations drawn from the AEMC's analysis of unit proceeds versus payout (Figure 5.4) of the Consultation Paper. Closer observation of the figure shows that of the 50 quarters, the Proceeds were greater (28 quarters) than the Pay-outs (22 quarters). Of these 28 quarters, the consumers (through a reduction in TNSP TUOS charges) were better off with receiving SRA proceeds versus receiving the pay-out from SRDU. More importantly consumers through the SRA proceeds receive a known cash flow stream instead of a volatile cash flow stream from the SRDU payout. The volatility in the payouts also highlights that SRDU payouts are inherently uncertain and risky. Hence the price paid for these SDRU should be at a discount over the payout amount.

Snowy Hydro appreciates the opportunity to participate in this consultation process. For further clarification on our submission, contact me on kevin.ly@snowyhydro.com.au.

Yours sincerely



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