



**AGL Energy Limited**

ABN: 74 115 061 375

Level 24, 200 George St

Sydney NSW 2000

Locked Bag 1837

St Leonards NSW 2065

**t:** 02 9921 2999

**f:** 02 9921 2552

agl.com.au

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Mr Istvan Szabo  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

17 May 2017

Dear Mr Szabo,

**ERC0220 – Secondary Trading of Settlement Residue Distribution Units**

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper on the National Electricity Amendment (Secondary Trading of Settlement Residue Distribution Units) Rule 2017.

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional generation fuel sources as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

AGL considers that the current settlements residue auction (SRA) process operates effectively, is a mechanism that market participants have confidence in, and does not consider that the proposed rule change addresses a substantive market failure with regards to the operation of the SRA market overall.

AGL also notes that implementing the rule change proposed by Westpac will not increase the total quantity of Settlement Residue Distribution Units (SRDUs) available to the market - but may lead to a slight increase in the turnover rate of existing SRDUs by making the trading of rights an easier proposition.

That said, AGL is broadly supportive of amendments to settlement residue market settings that facilitate access to SRDUs in a secondary market - as it will likely create market benefits by making trading easier, thereby increasing secondary market liquidity, allow participants to more readily optimise their portfolio and, as noted by the AEMC, contribute to 'increase[d] interstate trade of electricity and increase competition'.

From a cost perspective, AGL notes that AEMO's estimate to implement the proposed rule change caps out at \$285,000 and, as such, if there is little interest in trading SRDUs in a secondary market, market participants will not be left with a large implementation bill.

In relation to implementation, AGL's strong preference is that SRDUs already purchased should not be included in the rule change, and that only SRDUs purchased at auctions after the rule change is implemented should be allowed to be sold into the SRA process. This is to ensure that the cost of SRDUs already purchased is not compromised.

Indeed, it could be argued that altering the settings of the remaining tranches may still compromise the cost of those SRDUs already purchased, as embedded in the cost attributed to the SRDU is that there is no provision to sell SRDUs back in to the auction. As such, it may be deemed appropriate to implement the rule change only prior to the first tranche of the SRDUs at auction, namely three years in advance.



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AGL also considers that consideration should be given to the appropriateness or otherwise of prudential charges for SRDU holders, if the proposed rule change were to be implemented, in order to reflect the credit risk and embedded optionality of the SRDUs.

Further, the potential for increased hedging costs for participants should be considered as the cost of SRDUs at auction may increase with the embedded option. And given the additional trading rights attached, any change in the accounting and risk management classification of SRDUs as a hedging instrument may limit their effectiveness.

AGL also notes that if the rule change is implemented, the auction rules would be determined by AEMO and the settlement residue committee through the rule consultation procedures. However, on this matter, AGL would seek to ensure that the framing of the market did not allow for any unintended consequences to eventuate. Market settings, including market monitoring and enforcement provisions should be sufficient so as not to diminish the operation of the secondary auction market overall.

Finally, AGL does not support a broader assessment of the efficiency, or otherwise, of the current SRA market and process. If you require further information, please contact Liz Gharghori on 03 8633 6723 or [lgharghori@agl.com.au](mailto:lgharghori@agl.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux  
Manager Wholesale Markets Regulation