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Nicole Dodd

Australian Energy Market Operator

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Dear Nicole,

Settlements residue auction rules – secondary trading

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Operator (AEMO) settlements residue auction rules – secondary trading consultation paper (consultation paper) and proposed amendments to the settlements residue auction rules (auction rules).

Section 3.6.1 of the consultation paper deals with the ability to offer units previously purchased ahead of the anticipated commencement of the new auction rules on 1 July 2019. We consider this to be problematic, as the units offered for secondary trading in a Q3 2019 auction would not have been purchased and valued with this ability attached. Essentially, the proposed approach would compromise the cost of units already purchased.

AGL suggests that a preferred approach is to introduce a lead-in time, by “tagging” units purchased at future auctions as tradable, in anticipation of the new auction rules taking effect on 1 July 2019. We do not consider the introduction of a transitional period to be inconsistent with clause 3.18.3(a1) of the National Electricity Rules (NER), which gives AEMO wide-ranging discretion when amending the auction rules to implement secondary trading.

A further issue is that if participants offer their units into the auction through the secondary trading mechanism, the number of units available for purchase for each interconnector tranche will be unknown. We anticipate that participants would be less inclined to bid, for fear of driving the unit price up on primary unit purchases, when it is not known if units will be available. This uncertainty would limit the efficiency of auctions.

This unknown element of available supply also has implications for the auction fee structure, discussed in section 3.5.2 of the consultation paper. AEMO acknowledges this issue, but states that it, along with the Settlements Residue Committee, will estimate the expected number of units to be allocated at an auction, and that as the market progresses, will be able to converge to the turnover that is observed. Our view is that the number of units offered through the secondary trading mechanism will be driven more by the appetite of each participant at a given time, rather than at a stable, fixed percentage. To put it simply, this unknown is too unknown.

An alternate proposal would be to set a cut off for the nomination of secondary units prior to the opening of a quarterly auction. We consider that this would improve the efficiency of the secondary market, leading to greater trading turnover and market transparency.



If you have any queries about this submission, please contact Liz Gharghori on (03) 8633 6723 or lgharghori@agl.com.au.

Yours sincerely,

Chris Streets

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