SETTLEMENTS RESIDUE AUCTION RULES – SECONDARY TRADING – IMPLEMENTATION CONSULTATION

DRAFT REPORT AND DETERMINATION

Published: **June 2019**

NOTICE OF SECOND STAGE CONSULTATION – SETTLEMENTS RESIDUE AUCTION RULES – SECONDARY TRADING

National Electricity Rules – Rule 8.9

Date of Notice: 20 June 2019

This notice informs all Electricity Market Registered Participants, Intending Participants and interested parties that AEMO is commencing the second stage of its consultation on amendments to the Settlement Residue Auction Rules (Auction Rules). These amendments are to clarify definitions and clauses that have been identified while developing the systems to implement secondary trading in the Settlements Residue Auction (SRA) under the National Electricity Rules (NER).

This consultation is being conducted under clause 3.18 of the NER, in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

Invitation to make Submissions

AEMO invites written submissions on this Draft Report and Determination (Draft Report).

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so.

Consulted Persons should note that material identified as confidential may be given less weight in the decision-making process than material that is published.

Closing Date and Time

Submissions in response to this Notice of Second Stage of Rules Consultation should be sent by email to nicole.dodd@aemo.com.au, to reach AEMO by 5.00pm AEST on 5 July 2019.

All submissions must be forwarded in electronic format (both pdf and Word). Please send any queries about this consultation to the same email address.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

Publication

All submissions will be published on AEMO's website, other than confidential content.

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EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage of the Rules consultation process conducted by AEMO to consider proposed amendments to the Settlements Residue Auction Rules (Auction Rules). These amendments are to clarify definitions and clauses that have been identified while developing the systems to implement secondary trading in the Settlements Residue Auction (SRA) under the National Electricity Rules (NER).

AEMO published a Consultation Paper to commence the first stage of consultation on 23 April 2019 for the implementation consultation. This followed the Settlements Residue Committee (SRC) approving the amended Auction Rules in January 2019 to implement secondary trading in the SRA. Implementation of secondary trading will allow participants to offer units that they have previously purchased in a subsequent auction. If the unit is cleared in that auction, AEMO would cancel the unit and pay the holder the clearing price for cancellation.

The Consultation Paper discussed amendments to be made to the Auction Rules that AEMO identified while progressing system changes to implement secondary trading. These amendments are to clarify clauses and terms for the avoidance of doubt. In summary, the key amendments proposed to the Auction Rules involve:

- Clarifying that the clearing price of an auction should only be set to $0 where there are more primary units available than the total quantity bid (that is, by explicitly excluding Offered Units from Available Units in Clause 13.2),

- Ensuring consistent use of positive and negative have been used throughout the definitions and calculation of the trading margin, trading limit and prudential exposure in Clauses 7.3 and 7.4,

- Clarifying definitions of terms used in equations, and

- Amending some typographical errors that have been found in this review of the Auction Rules.

AEMO did not receive any written submissions to the Consultation Paper. However, AEMO has engaged with stakeholders through the NEM wholesale consultative forum, the SRC meetings, and in bilateral conversations. These discussions have identified some final minor additional amendments AEMO believes would be prudent to the Auction Rules for explanatory purposes given the opportunity available.

AEMO's draft determination is to amend the Auction Rules in the form of Attachment 1, in accordance with clause 3.18 of the NER.

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1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 3.18 of the NER, AEMO is consulting on the implementation of secondary trading in the SRA in accordance with the Rules consultation process in rule 8.9.

AEMO's indicative timeline for this consultation is outlined below. Future dates may be adjusted depending on the number and complexity of issues raised in submissions.

Deliverable	Indicative date
Notice of first stage consultation and Consultation Paper published	23 April 2019
NEM Wholesale Consultative Forum Presentation	30 April 2019
First stage submissions closed	30 May 2019
Draft Report & Notice of second stage consultation published	20 June 2019
Submissions due on Draft Report	5 July 2019
Final Report published	19 July 2019
Effective date of the Auction Rules	1 October 2019

The SRC is ultimately responsible for approving the amendments to the proposed version of the Auction Rules to give effect to secondary trading. AEMO will continue to work with the SRC during the consultation to understand concerns and assess proposals raised by stakeholders.

The publication of this Draft Report marks the commencement of the second stage of consultation.

Note that there is a glossary of terms used in this Draft Report at Appendix A. References in this paper to 'rule x' is a reference to an NER rule; the word 'clause' has been used to refer to specific clauses in the amended Auction Rules or Auction Participation Agreement.

2. BACKGROUND

2.1. NER requirements

Under rule 3.18.3 of the NER, AEMO is responsible for developing and amending the Auction Rules that set out the procedures and mechanisms for operating the SRA. Rule 3.18.3(d)(1) stipulates that AEMO may amend the Auction Rules with the approval of the SRC and in accordance with the Rules consultation process outlined in rule 8.9.

2.2. Context for this consultation

On 10 October 2017, in response to an NER Rule change proposal submitted by Westpac Banking Corporation (Westpac), the Australian Energy Market Commission (AEMC) made a final determination to change the NER to enable AEMO, with the approval of the Settlements Residue Committee (SRC), to provide a platform for secondary trading of settlements residue distribution units (units). The AEMC's determination considered secondary trading will improve liquidity in units, which in turn is likely to increase interstate trade of electricity, improve risk management, and increase competition in retail and wholesale markets. [1]

AEMO developed a high-level design in conjunction with the SRC, incorporating all necessary requirements of the final NER determination. In May 2018, based on this design, initial estimates and implementation timelines, the SRC endorsed secondary trading to be implemented in the SRA. The SRC provided guiding

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[1]AEMC, 2017, "Secondary trading of settlement residue distribution units rule change". Available: https://www.aemc.gov.au/rule-changes/secondary-trading-of-settlement-residue-distributi Viewed: 19 September 2018

principles for the implementation of secondary trading to deliver the desired benefits, while limiting consequential changes for those currently participating in SRA.

AEMO initiated consultation with industry on the proposed changes to the Auction Rules in September 2018. On 30 January 2019, AEMO published the final report and determination, with the SRC's approval, to amend the Auction Rules to implement secondary trading. Implementation of secondary trading will allow participants to offer units that they have previously purchased in an auction for sale in a subsequent auction. AEMO has also begun design and development work to update the SRA systems required for these changes. Through the development of the design, AEMO has identified clauses and definitions in the Auction Rules that warrant clarification; these are the subject of this consultation.

2.3. First stage consultation

AEMO issued a Notice of First Stage Consultation on 23 April 2019 for the implementation consultation. AEMO prepared a Consultation Paper to consult with industry on proposed amendments to clarify definitions and clauses that have been identified while developing the systems to implement secondary trading in the SRA under the NER. This paper is available on AEMO's website at: http://aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/NEM-Consultations/2019/SRA-Secondary-Trading-Implementation/ConsultationPaper2_Auction-Rules_Secondary-Trading.pdf.

In summary, the key amendments proposed to the Auction Rules involve:

- Clarifying that the clearing price of an auction should only be set to $0 where there are more primary units available than the total quantity bid (that is, by explicitly excluding Offered Units from Available Units in Clause 13.2),

- Ensuring consistent use of positive and negative have been used throughout the definitions and calculation of the trading margin, trading limit and prudential exposure in Clauses 7.3 and 7.4,

- Clarifying definitions of terms used in equations, and

- Amending some typographical errors that have been found in this review of the Auction Rules.

AEMO did not receive any written submissions in the first stage of consultation.

AEMO also presented to the NEM Wholesale Consultative Forum on 30 April 2019 to discuss the proposed amendments. Minutes of that meeting have been published on AEMO's website at: http://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Wholesale-meetings/NEM-Wholesale-Consultative-Forum

3. MATERIAL ISSUES

The key material issues arising from the proposal are summarised in the following table:

No.	Issue	Raised by
1.	Amendments to the definition of the Auction LP	AEMO
2.	Amendments to the calculation of prudential exposure	AEMO
3.	Fee and bill payments	AEMO

No written submissions were received to the consultation. AEMO's position on these material issues is described in the consultation paper; this has not varied. Clauses 7.3, 13.2, and 15.2 is proposed to be amended as per the change-marked version of the Auction Rules published with the consultation paper, available on AEMO's website: http://aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/NEM-Consultations/2019/SRA-Secondary-Trading-Implementation/SRA_Settlements_Residue_Auction_Rules_01_10_19.pdf.

4. OTHER MATTERS

While AEMO did not receive any written submissions to the consultation, AEMO has engaged with stakeholders regarding the changes to the SRA. AEMO presented at the NEM wholesale consultative forum in April 2019, discussed the amendments with the SRC at the Committee meeting in May 2019, and has engaged in bilateral discussions. This section discusses items that have been raised in these conversations.

4.1. Minor amendments

As a result of the engagement AEMO has had, additional minor amendments have been made to the Auction Rules for further clarification. In clause 7.3, related to the calculation of prudential amounts for Auction Participants, the following amendments are proposed:

- The prudential calculations are always with reference to the time of the calculation.
- A typo has been corrected compared to the tracked-changed version, to amend the definition of the average cancellation price.
- The period that offers will be valid is only the Offer Period, as per Clause 10.1.
- Offers are participant specific.

In clause 15.2, related to the calculation of Auction Expense Fees, the following amendments are proposed:

- The average auction purchase price for units either allocated or cancelled has been clarified to specify that the average auction purchase price for Units cancelled is set to the average purchase price for Units allocated for Unit Category "u".
- Clarified that Fees and Billing Period Payments are in dollars.

The mark ups compared to the consulted version of the Auction Rules are specified in Appendix B.

4.2. Implementation

4.2.1. Participation

To make offers, existing SRA participants will need to execute a new Auction Participation Agreement that includes the relevant provisions. This consultation does not impact the Auction Participation Agreement (APA) that was approved in January 2019, so the new version of the agreement is already available.[2] However, as AEMO is still conducting a consultation on the Auction Rules to which participants will be required to adhere, executable versions of the new APA will be made available once this consultation is concluded and the implementation date is set.

AEMO is also simultaneously conducting a consultation on amendments to the APA to update clause 16.5 of the APA to limit the scope for auction participants to terminate settlement residue distribution agreements (SRDAs) as a result of the introduction of changes to introduce Five-Minute Settlement in the National Electricity Market. It was agreed by the SRC that the amendment to clause 16.5 will only be made effective after SRA secondary trading is implemented. This will provide a limited window for existing participants to execute a new APA that includes the changes to allow secondary trading without the amendment to clause 16.5. The indicative date for the amendment to clause 16.5 to be effective in the APA is November 2019. AEMO will work with existing auction participants wishing to execute a new APA to participate in secondary trading prior to implementation of the new Auction Rules.

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[2] Note that the clause cross references in the definition of "cancelled units" and clause 9.4(b) of the APA were obvious drafting errors and have been corrected.

4.2.2. Technical information

AEMO has established a separate page on its website in order to publish any additional information regarding the implementation of secondary trading in SRA. This page can be accessed directly on AEMO's website at: http://aemo.com.au/Electricity/National-Electricity-Market-NEM/Settlements-and-payments/Settlements/Settlements-Residue-Auction/SRA-Secondary-Trading-Project

AEMO will publish information or links to information regarding technical specification of any changes to SRA as a result of secondary trading on this page. As highlighted in previous consultations, and under the direction of the SRC, AEMO has endeavoured to limit the changes to existing auction participants insofar as possible.

5.   DRAFT DETERMINATION

Having considered the matters raised in submissions, AEMO's draft determination is to amend the Auction Rules in the form of Appendix B, in accordance with clause 3.18 of the NER.

APPENDIX A.   GLOSSARY

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APA	Auction Participation Agreement. The template agreement is an appendix to the Auction Rules.
Auction Rules	Settlements Residue Auction Rules
IRSR	Inter-regional Settlements Residue. Also referred to as 'residue'
NER	National Electricity Rules
SRA	Settlements Residue Auction
SRC	Settlements Residue Committee
SRDA	Settlements Residue Distribution Agreement. The form of this agreement is stipulated in the APA.
TNSP	Transmission Network Service Provider
units	Settlements Residue Distribution units.

APPENDIX B.   DRAFT AUCTION RULES

A change-marked version of the Auction Rules and Auction Participation Agreement to facilitate secondary trading was published on AEMO's website on with the first stage consultation pack. This remains on the consultation webpage at:

http://aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/NEM-Consultations/2019/SRA-Secondary-Trading-Implementation/SRA_Settlements_Residue_Auction_Rules_01_10_19.pdf

The following minor amendments have been identified, as compared to the first-stage consultation version, with additions marked in blue, and removals marked in red:

7.3 Calculation of prudential amounts for Auction Participants

…

d) The Prudential Exposure of an Auction Participant at any time is the amount calculated by AEMO as follows reflecting a reasonable estimate of the maximum net aggregate amount actually or contingently owing to AEMO under SRDAs, the *auction rules* and the *Rules* in relation to Units including but not limited to Cancelled Units at that time.

   i) The trading position (TP(p,q,u)) of an Auction Participant for each Unit Category and Relevant Quarter is calculated as follows:

$$\text{TP}(p,q,u) = \text{CV}(p,q,u) \times (\text{ACP}(p,q,u) - \text{APP}(p,q,u,MTc(p,q,u)))$$

TP(p,q,u)	Trading Position
	Trading position of participant "p" for Unit Category "u" and Relevant Quarter "q" at the time of calculation
	Note: If a participant is expected to owe money to AEMO then TP(p,q,u) will have a negative value.
CV(p,q,u)	Cancelled volume
	Sum of the number of units cancelled for Unit Category "u" and Relevant Quarter "q" with the number of units that are currently offered for a price less than APP(p,q,u) at the time of calculation
	Note: offers are only valid in the Offer Period, as defined in Clause 10.1.
ACP(p,q,u)	Average cancellation price
	Average volume-weighted price of units cancelled for Unit Category "u" and Relevant Quarter "q" with the number of units that are currently offered for a price less than APP(p,q,u), with those that are being offered to be cancelled at a price less than the average volume-weighted price of units that have been allocated to

	participant "p" for Unit Category "u" and Relevant Quarter "q" at the time of calculation.
APP(p,q,u,MTc(p,q,u))	Average purchase price Average volume-weighted price of units that have been allocated to participant "p" for Unit Category "u" and Relevant Quarter "q" before the most recent tranche "MTc(p,q,u)" in which participant "p" had units for Unit Category "u" and Relevant Quarter "q" cancelled at the time of calculation. "MTc(p,q,u)" is further defined below
MTc(p,q,u)	The most recent tranche prior to the time of calculating the trading position in which the participant "p" has had units cancelled for Unit Category "u" and Relevant Quarter "q" at the time of calculation. If the participant has offered units for Unit Category "u" and Relevant Quarter "q" which are less than the average purchase price of all units the participant has previously had allocated for Unit Category "u" and Relevant Quarter "q", MTc(p,q,u) is set to the tranche in which the offer is being made, "To".

ii) The cancelled volume (CV(p,q,u)) in the calculation of the trading position of an Auction Participant under subclause (d)(i) above is calculated as follows:

$$\text{CV}(p,q,u) = \sum_{Tc} CancelledUnits(p,q,u,Tc) + \sum_{\substack{o \\ where\ OP<APP(p,q,u,MTc=To)}} OfferedUnits(p,q,u,o,To)$$

CancelledUnits(p,q,u,Tc)	Number of units of participant "p" that have been cancelled for Unit Category "u" and Relevant Quarter "q", in tranche "Tc"
OfferedUnits(p,q,u,o,To)	Number of units participant "p" is offering for Unit Category "u" and Relevant Quarter "q", in offer "o", and in tranche "To". Note, offers will only be valid in one tranche "To" for Unit Category "u" and Relevant Quarter "q" at a time, and only in the Offer Period, as defined in Clause 10.1.

Note: Offered Units are only included in the cancelled volume calculation if the offer price is less than the Average Purchase Price as calculated including all previously allocated units (APP(p,q,u,MTc(p,q,u) = To).

iii) The average weighted price of cancelled and offered Units (ACP(p,q,u)) and allocated units (APP(p,q,u,MTc(p,q,u))) in the calculation of the trading position of an Auction Participant under subclause (d)(i) above is calculated as follows:

$$ACP(p,q,u)$$
$$= \frac{\sum_{Tc}(CancelledUnits(p,q,u,Tc) \times CP(q,u,Tc) + \sum_{\substack{o \\ where \ OP<APP(p,q,u,MTc=To)}}(OfferedUnits(p,q,u,o,To) \times OP(p,q,u,o)}{CV(p,q,u)}$$

$$APP(p,q,u,MTc(p,q,u))) = \frac{\sum_{Ta=1\ to\ MTc-1}(AllocatedUnits(p,q,u,Ta) \times PP(q,u,Ta))}{\sum_{Ta=1\ to\ MTc-1}(AllocatedUnits(p,q,u,Ta))}$$

CP(q,u,Tc)	Cancellation price for Unit Category "u" and Relevant Quarter "q" in tranche "Tc"
OP(p,q,u,o)	Offer price participant "p" has offered for Unit Category "u" and Relevant Quarter "q" in offer "o"
AllocatedUnits(p,q,u,Ta)	Number of units participant "p" has been allocated for Unit Category "u" and Relevant Quarter "q", and in tranche "Ta"
PP(q,u,Ta)	Purchase price for Unit Category "u" and Relevant Quarter "q" in Tranche "Ta"

iv) The Prudential Exposure of an Auction Participant is the negative of the aggregate of the trading positions of an Auction Participant under subclause (d)(i) above calculated as follows:

$$ATP(p) = Min\left(0, \sum_{q=1}\sum_u TP(p,q,u)\right) + \sum_{q=2\ to\ n}\sum_u TP(p,q,u)$$

$$PE(p) = -ATP(p)$$

ATP(p)	Aggregate trading position of participant "p"
	Note: Payments due to the participant due to Cancelled Units in one Unit Category and Relevant Quarter can offset payments owed by the participant in another Unit Category and Relevant Quarter for the purposes of calculating Prudential Exposure of that participant.
q	is the Relevant Quarter of the unit. q=1 means the unit will be settled in the next settlement. q=n is~~n~~ the final Relevant Quarter to be settled.
PE(p)	Prudential Exposure of a participant "p"

15.2 Auction Expense Fees Calculation

Auction expense fees for each Transaction must be calculated using the following formula:

$$F(q,u,t) = \frac{E(q,t) \times N(qls,u,t) \times P(qls,u,t)}{\sum_u(N(qls,u,t) \times P(qls,u,t)) \times N(q,u,t)}$$

F(q,u,t)	*auction expense fee* for Unit Category "u" and Relevant Quarter "q" ($ per Unit) and Transaction type "t";
t	Transaction type where: "a" = Allocation Fee "c" = Cancellation Fee
$E(q,t)$	AEMO's auction expenses associated or attributed to transaction type "t" after any reconciliation under clause 15.3 to be recovered via *auction expense fees* in Relevant Quarter "q" ($);
P(qls,u,t)	Average *auction* purchase price for Units either allocated or cancelled for Unit Category "u" for Transaction type "t" for the last corresponding Relevant Quarter that has been settled "qls"; If the number of Cancelled Units in Unit Category "u" for the last corresponding Relevant Quarter that has been settled "qls" is zero, ~~this number~~ *average auction* purchase price for Units cancelled is set to the average purchase price for Units allocated for Unit Category "u". That is P(qls,u,a)=P(qls,u,c)
N(q,u,t)	Where Transaction type "t" is the allocation of Units, the maximum number of Units and Offered Units expected to be allocated in Unit Category "u" in Relevant Quarter "q"; and Where Transaction type "t" is the cancellation of Cancelled Units, the number of Cancelled Units in Unit Category "u" expected in the Relevant Quarter "q";
N(qls,u,t)	Where Transaction type "t" is the allocation of Units, the maximum number of Units and Offered Units that were allocated in Unit Category "u" for the last corresponding Relevant Quarter that has been settled "qls"; and Where Transaction type "t" is the cancellation of Cancelled Units, the number of Cancelled Units in Unit Category "u" for the last corresponding Relevant Quarter that has been settled "qls", provided that if the number of Cancelled Units in Unit Category "u" for the last corresponding Relevant Quarter that has been settled "qls" is zero, this number is set to 1.

Note: AEMO's auction expenses associated or attributed to each transaction type and the number of Cancelled Units in Unit Category "u" expected in the Relevant Quarter "q" (N(q,u,t)) will be determined by AEMO from time to time in accordance with the *Rules* and approved by the *settlement residue committee*.

Note: The 'corresponding Relevant Quarter' refers to a quarter at the same time of the year as the Relevant Quarter. For example, if the Relevant Quarter is the first quarter for the year, the corresponding Relevant Quarter that has been settled would be the most recently settled "first quarter".

Auction expense fees for each Auction Participant for the first *billing period,* or part of a *billing period,* within a Relevant Quarter must be calculated at the start of the Relevant Quarter using the following formula:

$$Fee(p,q,1) = \sum_u (n(p,q,u,c) \times F(q,u,c)) + \sum_u ((n(p,q,u,a) \times F(q,u,a)) + Fee(p,q-1,n)$$

Fee(p,q,w)	total fees ($) due in Relevant Quarter "q" from participant "p" in *billing period* or part of a *billing period* "w"
w	*Billing period* or part of a *billing period*. Where w =1 is the first *billing period*, or part of a *billing period*, of a Relevant Quarter and w = n is the last *billing period*, or part of a *billing period*, of a Relevant Quarter.
n(p,q,u,t)	Number of units allocated (t= "a") or cancelled (t= "c") for participant "p" in Unit Category "u" for Relevant Quarter "q"

Auction expense fees for each Auction Participant for each *billing period* within a Relevant Quarter, after the first *billing period*, must be calculated using the following formula:

$$Fee(p,q,w) = Max(0, Fee(p,q,w-1) - Billing\ Period\ Payment(p,q,w-1))$$

Billing Period Payment(p,q,w)	The amount paid ($) to a participant "p" in a *billing period* or part of a *billing period,* "w" in a Relevant Quarter "q"