

SETTLEMENTS RESIDUE AUCTION RULES – SECONDARY TRADING

FINAL REPORT AND DETERMINATION

Published: **July 2019**





NOTICE OF FINAL DETERMINATION – SETTLEMENTS RESIDUE AUCTION RULES – SECONDARY TRADING

National Electricity Rules – Rule 8.9

Date of Notice: 30 July 2019

This notice informs all Electricity Market Registered Participants, Intending Participants and interested parties that the Settlements Residue Committee have approved 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 includes minor drafting amendments to the Auction Participant Agreement.

This approval is in accordance with 3.18.5(b)(2) of the National Electricity Rules (NER), where AEMO has conducted the consultation in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

The new version of the Auction Rules and associated agreements is to be in effect from 1 October 2019.

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EXECUTIVE SUMMARY

The publication of this Final Report and Determination informs participants that the Settlements Residue Committee (SRC) have approved the amendments to the Settlements Residue Auction Rules (Auction Rules) and associated agreements 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).

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 Settlements Residue Committee (SRC) approved amendments to the Auction Rules to implement secondary trading in the SRA in January 2019.

AEMO published a Consultation Paper to commence the first stage of consultation on amendments identified through implementation on 23 April 2019. . 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 engaged with stakeholders through the NEM wholesale consultative forum, the SRC meetings, and in response to questions raised by participants during the consultation period. These discussions identified some final minor additional amendments that would be prudent for explanatory purposes.

AEMO prepared the Draft Report and Determination to discuss these additional minor amendments. AEMO did not receive any additional submissions to this consultation.

AEMO and the SRC's final determination is to amend the Auction Rules in the form of Attachment 1, in accordance with clause 3.18 of the NER. This is as per the Auction Rules that were published with the Draft Report and Determination.



CONTENTS

NOTICE OF FINAL DETERMINATION – SETTLEMENTS RESIDUE AUCTION RULES – SECONDARY TRADING	1
EXECUTIVE SUMMARY	2
1. STAKEHOLDER CONSULTATION PROCESS	4
2. BACKGROUND	4
2.1. NER requirements	4
2.2. Context for this consultation	4
2.3. First stage consultation	5
2.4. Second stage consultation	5
3. SUMMARY OF MATERIAL ISSUES	5
4. DISCUSSION OF MATERIAL ISSUES	6
5. FINAL DETERMINATION	6
APPENDIX A. GLOSSARY	7
APPENDIX B. AUCTION RULES	8



1. STAKEHOLDER CONSULTATION PROCESS

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

AEMO’s timeline for this consultation is outlined below.

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	30 July 2019
Effective date of the Auction Rules	1 October 2019

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 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. AEMO is carrying out the development and testing of the market systems required to implement secondary trading in the SRA. Through this

¹AEMC, 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



development work, 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 consultation. AEMO prepared a Consultation Paper to consult with industry on proposed amendments to clarify definitions and clauses that were 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>

2.4. Second stage consultation

AEMO issued a Notice of Second Stage Consultation on 20 June 2019. AEMO prepared a Draft Report and Determination to discuss the material issues that had been raised in the first stage of consultation. 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/Draft-Report-SRA-Secondary-Implementation-Consultation.pdf

The second stage of consultation did not raise any additional material issues. However, some final minor additional amendments that AEMO believes prudent to the Auction Rules for explanatory purposes were made given the opportunity available. These were as a result of engagement with stakeholders through consultative forums, SRC meetings, and in response to questions raised by participants during the consultation period.

The Draft Report and Determination was published noting these minor amendments.

AEMO did not receive any submissions to the second stage of consultation.

3. SUMMARY OF 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



No.	Issue	Raised by
3.	Fee and bill payments	AEMO

No written submissions were received to the consultation. AEMO’s position on these material issues is described in each consultation paper; this has not varied.

4. DISCUSSION OF MATERIAL ISSUES

No new material issues were raised in the second stage of consultation.

5. FINAL DETERMINATION

AEMO has sought and received the SRC’s approval to amend the Auction Rules, 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. AUCTION RULES

The final Auction Rules and Auction Participation Agreement is published on AEMO's website:

<http://aemo.com.au/Stakeholder-Consultation/Consultations/SRA-Secondary-Trading-Implementation-Consultation?Convenor=AEMO%20NEM>

An executable version of the Auction Participation Agreement will be made available on the project page:

<http://aemo.com.au/Electricity/National-Electricity-Market-NEM/Settlements-and-payments/Settlements/Settlements-Residue-Auction/SRA-Secondary-Trading-Project>