7 November 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Sir/Madam,

Re: GRC0021 Portfolio Rights Trading: Request for submissions on a specific issue

Lumo Energy welcomes the opportunity to respond to the request for a submission on a specific issue relating to development on the Portfolio Rights Trading (PRT) Rule.

We are 100% owned by Snowy Hydro Limited. We sell gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland. We are currently one of the largest second tier retailers.

AEMO submitted the PRT rule change to the AEMC on 14 November 2013. The rule change proposed to introduce PRT into the DWGM to address perceived barriers which limit a market participants' ability to acquire authorised MDQ (AMDQ) and AMDQ credit certificates (AMDQ cc) in order to meet their injection tie breaking and uplift hedge needs.

A high level cost benefit assessment was included by AEMO in its rule change request. The total system implementation costs associated with PRT was forecast at $500,400. AEMO stated that the PRT project could return positive market benefits if the traded quantity of AMDQ and AMDQcc was above 10TJ for the life of the project, which was assumed to be five years. The proposed implementation date was set at April 2015.

On 13 October 2014, AEMO notified the AEMC that the costs and timing associated with the implementation of PRT would change. The estimated timeframe for the implementation of PRT had moved from April 2015 to December 2015. Whilst, the estimate of total implementation costs had increased from $559,000 to $687,500 which represents a 37% increase.

Following these changes, AEMO determined that the PRT project would only achieve a positive net benefit if the traded quantity of AMDQ and AMDQcc was greater than 13TJ each year over the 5 years of the project. This is more than the original estimate of 9.5TJ.

In our initial submission, we supported the rule change proposal. In fact, we considered that AEMO's estimate of 9.5TJ per year was quite conservative and that market participants' would trade greater quantities of AMDQ and AMDQcc every year over the next five years.

As the Victorian Government has requested the AEMC to undertake a full review of the pipeline capacity, investment, planning and risk management mechanisms in the Victorian gas market, Lumo Energy considers that this may influence the PRT cost benefit analysis. Therefore, it is our view that it would be prudent for the AEMC to refrain from making this rule.

AEMO has admitted that recommendations arising from the AEMC's review may have implications for the implementation of, and use of PRT. Whilst the precise nature of these implications is unknown at this time, this uncertainty raises enough doubts for the PRT project to be abandoned. In our view, the Victorian Government's review of the DWGM should proceed before this rule change is progressed any further at this stage. If the rule change is still relevant following the Victorian Government's review of the Victorian gas market, then the AEMC can review it again.

Lumo Energy appreciates the opportunity to comment on this specific issue relating to the PRT project. Should you have any further enquiries regarding this submission, please call Con Noutso Wholesale Regulatory Manager on 03 9976 5701.

Yours sincerely

Con Noutso
Wholesale Regulatory Manager
Lumo Energy Australia Pty Ltd