Australian Energy Markets Commission

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**AEC Submission to AEMC National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops): Consultation Paper**

The Australian Energy Council (AEC) welcomes the opportunity to make a submission in response to the AEMC National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops): Consultation Paper.

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

**Support for AEMO's proposal**
From late 2022 until the end of 2023, AEMO conducted the Project Energy Connect (PEC) Market Integration stakeholder consultation. The AEC, its members and other stakeholders engaged with AEMO in this process and played an important role identifying the key issues and how to best address them within the constraints of such a complex problem.[1] A variety of approaches were assessed and one of which we had to request AEMO to conduct further analysis on the 'micro-slice' was also explored. As noted by AEMO in its rule change proposal the two key issues related to outcomes for consumers:

> *"Negative settlement residues will become more common and form part of normal dispatch:*
>
> *− Without process change, this would result in more application of "clamping constraints". By continuing to constrain the interconnectors, they become underutilised and consumer benefit is lessened.*
>
> *This Proposal considers that by only reallocating negative IRSR to TNSPs rather than reallocating all positive IRSR to TNSPs, will uphold the value of SRA units. This notes the importance of inter-regional trading in the NEM."*[2]

Accordingly, we consider AEMO's proposal the most likely approach to best satisfy the NEO and we support the proposal. The AEC does not see the need to reopen the debate on alternative approaches and the three proposed by the AEMC are inferior to AEMO's.

The benefits of reducing interconnector clamping is an obvious benefit whereas the importance of preserving the value Settlement Residue Auction (SRA) units as a hedging tool may not be so obvious to non-market

[1] https://aemo.com.au/en/consultations/current-and-closed-consultations/project-energy-connect-market-integration-paper
[2] AEMO Rule Change Proposal, Integration of Project EnergyConnect (PEC) into the National Electricity Market (NEM), February 2024, pp19-10.

participants. SRA units are an important tool that allows participants to hedge the basis risk of inter-regional price differences. SRA units allow generators in one region to manage risk of price separation with adjoining regions, allowing them to offer hedge cover in these regions. The ability to manage interregional risk boosts liquidity in the electricity financial market and gives retailers access to a larger offering of financial products to manage their spot price risk, which supports them offering competitive products to consumers. The primary reason for PEC was to connect SA with NSW which will allow generators in each region to participate more fully in each market. SRA units will be an important enabler for this to occur and it is particularly relevant for the relatively illiquid SA contract market. Any diminution in their hedging value will reduce the consumer benefits of PEC.

With respect to TNSP cash flows we note that AEMO's proposal has sought "to preserve TNSP cashflow as far as practical."[3] In our view, if TNSPs have concerns they would be best addressed through the AER. If they can demonstrate to the AER there actually are any real problems for TNSPs, then the AER can address them though the NER 6A procedures and provide a net present value neutral solution.

**Assessment framework**

*Do you agree with the proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant?*

In our view the assessment criteria do not adequately reflect how adverse price outcomes could eventuate for consumers. The Consultation Paper appears to be focussed on the allocation of negative SRs.[4] In terms of the allocation of negative SRs, it is a second order effect that is greatly outweighed by the pricing of risk and market liquidity issues that would be created if the efficacy of SR units as a hedging tool were diminished. If SRs lose their value as a hedging tool, this would increase the price of risk, particularly in the relatively illiquid SA market. This is because less contracts may be offered in SA or what contracts are offered may be more expensive due to the reduction in the interregional price differential basis risk mitigation tools available to providers. From the consumer's perspective, it is contract pricing that is the primary determinant of the hedged wholesale cost of electricity not negative SRs added to TUOS.

**Conclusion**

Ultimately it is critical that as much benefit as possible is extracted from PEC both in terms of asset utilisation and increasing inter regional contracting liquidity. While there may be periods where outcomes are not ideal we believe AEMO's proposal strikes the right balance and represents the best solution where no solution is text book perfect.

In light of the complexity of PEC and the uncertainty surrounding how it will operate, we think it would be prudent for the AEMC to undertake a desktop review no later than after two years of full PEC operation. Depending on the outcome of this, further refinements may need to be considered.

Any questions about this submission should be addressed to peter.brook@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,

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[3] Ibid., p.10.
[4] Consultation Paper, p. 26 and Appendix E.

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