5 September 2024

Australian Energy Market Commission

Submitted online

Submission to consultation paper on Inter-regional settlements residue arrangements for transmission loops

Alinta Energy welcomes the opportunity to make a submission on this consultation paper.

Key points:

- **SRA units are key to facilitating robust competition in retail markets, particularly in regions where there are low levels of liquidity in the wholesale market.**
- **The hedging value of SRA units should be prioritised over any cashflow issues associated with negative settlement residues.**
- **AEMO's proposed solution is the option that best meets the above criteria**

As one of Australia's largest energy retailers, Alinta Energy notes the critical role that Settlements Residue Auction (SRA) units play in facilitating robust competition in the east coast retail markets (particularly in regions with limited liquidity at the wholesale level) by allowing participants to hedge their exposure to inter-regional price risk. Should the hedging value of SRA units be significantly diminished, it would likely preclude any retailer participating in the retail market of a region without generation or a power purchase agreement for generation co-located in that region.

In the absence of publicly available detailed modelling of NEM dispatch outcomes (including key intra-regional constraints) we do not have a clear view on whether SRA units will, once Project Energy Connect (PEC) is implemented as a loop flow, continue to provide an effective hedging mechanism, due primarily to the uncertainty around future interconnector transmission flows.

Notwithstanding the above and noting the limitations of the scope of the AEMC's rule change process, we agree that AEMO's proposal is the best of the options because:

1. It maintains the hedging value of SRA units by ensuring that positive inter-regional settlement residues (IRSRs) are not offset with negative IRSRs.

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2. The proposal to allow negative IRSRs as long as aggregate IRSRs are positive reduces the extent to which AEMO will be required to clamp interconnectors (which would otherwise also diminish the hedging value of SRA units).

Further to the above, on AEMO's proposed approach to clamping, while we do not think that the existence of positive aggregate IRSRs around the transmission loop necessarily demonstrate that the overall dispatch solution is an efficient outcome (this would only necessarily be the case in a nodal pricing market that accounted for the impact of intra-regional constraints and disincentivised disorderly bidding) we cannot think of a better alternative basis for determining when AEMO should clamp the interconnectors.

If you would like to discuss this submission, please contact me at hugh.ridgway@alintaenergy.com.au.

Yours sincerely,

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