

5 September 2024

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Mr Tim Jordan
Ms Sally McMahon

Australian Energy Market Commission
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Lodged electronically: www.aemc.gov.au (ERC0386)

Dear Commissioners



EnergyAustralia

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Inter-regional settlements residue arrangements for transmission loops — Consultation Paper — 8 August 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We participated in AEMO's earlier consultation on the integration of Project Energy Connect and support its proposed option on the treatment of negative settlement residues under a loop flow arrangement. That is, we support improvements to overall dispatch outcomes by allowing negative residues to accumulate on one or more legs of "the loop", to the extent this is offset by positive residues elsewhere. We also consider it preferable that negative residues be allocated via adjustments to Transmission Use of System (TUoS) charges rather than to settlement residue distribution (SRD) units. As was highlighted in AEMO's consultation process, SRD units provide an important means for market participants to manage inter-regional price risk. This ability to manage risk ultimately lowers costs for market participants and should flow through to customers. The importance of SRD units will grow over time as the NEM becomes increasingly reliant on inter-regional power transfers, with clusters of thermal generation in each region replaced with geographically dispersed wind and solar generation.

While AEMO considered these issues already, they are subject to considerable complexity and uncertainty. We support the Commission exploring how customers would be affected by any new arrangements. We note the examples in the Commission's consultation paper that suggest residue reallocations via TUoS adjustments under AEMO's proposal would seem to exacerbate regional price separation. In examining distributional impacts further, the Commission should consider:

- the extent to which SRD transactions affect TUoS and contribute to customer bills currently

- the potential range in residue allocations under the status quo and proposed options. Earlier modelling by ACIL Allen may be useful in this regard.
- how spot price outcomes and regional price separation might be affected by the introduction of Project Energy Connect
- generally how spot prices relate to what customers actually pay e.g. via hedge contracts.

Further modelling should also explore the risk of whether the proposed arrangements allow for very large or persistent negative residue allocations to particular TNSPs, even when within a 'net positive' situation around the loop. If this risk is material and poses challenges for typical pass-through arrangements, it may be prudent to consider a secondary clamping threshold, for example in proportion to TNSP revenues.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
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