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Australian Energy Market Commission

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Inter-regional settlements residue arrangements for transmission loops

AGL Energy (AGL) welcomes the opportunity to provide feedback on the Australian Energy Market Commission (AEMC) Inter-regional settlements residue arrangements for transmission loops consultation paper.

About AGL

Proudly Australian for more than 186 years, AGL supplies around 4.3 million energy and telecommunications customer services. AGL is committed to providing our customers simple, fair, and accessible essential services as they decarbonise and electrify the way they live, work, and move.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market (NEM), comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

Consultation questions

Question 1: The problem identified in the rule change request.

Do stakeholders consider that there is a problem with applying the current rules for managing inter-regional settlement residues (IRSR) to transmission loops, specifically with respect to:

- clamping negative residues at the current threshold of $100,000
- allocating negative residues to importing regions
- allocating positive residues to importing regions (via settlement residue auctions)?

AGL generally agrees with the conclusions by AEMO that the current rules and procedures need modification to account for the impacts of interregional loop flows in the NEM.

- We agree with the conclusions that Project Energy Connect (PEC) should be represented as a standalone interconnector within NEM dispatch.
- We agree that when the entire loop has a net negative surplus that clamping should occur on individual legs where they are likely to exceed the $100,000 threshold.

We understand this current rule change is explicitly in relation to the allocation of negative residues when the overall loop is net positive in aggregate. We do consider the current rules are inadequate in this regard as the current allocation methodology is likely not appropriate for a loop configuration.

Question 2: Will the proposed solution address the issue raised by the proponent?

- What do you consider success would look like if the issue identified by the proponent was solved?
- Do you consider that the proposed changes to the rules will solve the problem raised or are there other factors that would have a greater impact?

AGL supports AEMO's proposed rule change to:

- Continue to recover negative residues in all circumstances from TNSP and not SRD unit holders to maintain the effectiveness of SRA's as a hedging instrument.

- Not clamp negative IRSR in an inter-regional transmission loop when net IRSR around the loop is positive.
- Reallocate negative IRSR on individual arms of the loop to the other arms in proportion to the positive IRSR they have accrued in the same dispatch interval.
- Apply the current approach when the net overall IRSR of the loop is negative.

AEMO's proposed solution will have been successful if it minimises instances of clamping when net IRSR is positive within a loop, thereby maximising benefits for consumers of transmission infrastructure. Given PEC will create the first inter-regional transmission loop of its kind within the NEM, we consider it prudent to review the regulatory framework following a defined timeframe of operation of the PEC to ensure PEC is delivering the promised benefits to consumers.

We also consider that any changes to the regulatory framework for IRSR should be implemented within the National Electricity Rules (NER) and should not be included within guidelines or procedures. This is to ensure clarity around any changes and consistent application across industry.

Question 3: What are your views of the benefits and drawbacks of the proposed solution?

What do you consider will be the benefits and drawbacks, or costs, of the proposed solution? If there are costs, will these be one-off or ongoing? Is there anything the Commission could do in designing the rule that would help to minimise the costs and maximise the benefits?

No comment.

Question 4: What are your views on these and other alternative solutions?

Are any of the alternative options outlined above, including a continuation of the current arrangements, preferable to the proposed solution in section 3.1? Can you share any other alternative solutions that you think would be preferable and more aligned with the long-term interests of consumers?

AGL does not support any of the alternative solutions at this time.

In relation to Option 1 (essentially keeping the current arrangements so that the negative residues are recovered from the importing TNSP on each leg) we do not fully accept the reasoning as proposed by the AEMC without further exploration. Although the conclusions drawn may be correct on a standalone basis, we consider that the alternative scenario (i.e. no loop at all) needs to compared to the scenarios and configurations discussed in the Appendix to correctly determine the allocation of negative residues. We agree with the conclusions from the AEMO study that the counterflow is facilitating benefits across all the regions and the system and the IRSR should be allocated in a way that aligns to these benefits. It is possible that the importing region in these circumstances would be subject to a lower wholesale cost if the loop and subsequent counterflow did not exist. For this reason, we consider it likely the proposed allocation by AEMO would be fairer overall to consumers in each region.

For the other options discussed:

- Option 2a. We agree with AEMO's conclusion that would likely be inappropriate because of the reasons mentioned.
- Option 2b. Although these other allocation methods may be ultimately superior, it is difficult at this time to fully assess. The approach suggested by AEMO would be relatively straightforward to implement and transparent. As discussed, after some period of operation of PEC this is something that may be subject to review after some operational experience.
- Option 2c. We do not support this method currently. It is not clear that the metrics suggested are appropriate without significant further work. As per our comment above this is something that might be explored in a future review after operational experience.

- Option 3. AGL does not agree with any methodology that recovers any negative residues from SRD unit holders as we believe this will significantly impact the hedging ability of SRA units.

Question 5: 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?

AGL considers the proposed assessment criteria centred around outcomes for consumers, principles of market efficiency, and good regulatory practice to be appropriate. We consider market efficiency should be prioritised as this will ultimately result in the most efficient allocation of costs and benefits resulting in the best outcomes for consumers. We consider outcomes that minimise negative residues would be a key measure of market efficiency.

If you have any queries about this submission, please contact Alifur Rahman at ARahman3@agl.com.au.

Yours sincerely,

Chris Streets

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Wholesale Markets Regulation