SUBMISSION

AEMC NATIONAL ELECTRICITY AMENDMENT (INTER-REGIONAL SETTLEMENTS RESIDUE ARRANGEMENTS FOR TRANSMISSION LOOPS) RULE 2025 DRAFT DETERMINATION (ERC0386)

30 JANUARY 2025

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under the National Electricity Amendment (Inter-Regional Settlements Residue Arrangements for Transmission Loops) Rule 2025 Draft Determination.

When AEMO first proposed to operate Project Energy Connect (PEC) as a transmission loop, we recognised that this would have detrimental financial implication for consumers. As we suggested to AEMO in our submission to them:

- *The EUAA is aware that the building of PEC will already impact customer's bills through increased TUOS in NSW and SA.*
- *The integration of PEC into the NEM will impact consumers both directly (changes to spot-price outcomes and indirectly (changes to wholesale market risk premiums and further increases to TUOS charges through the Settlement Residue Auctions (SRA)).*
- *EUAA is concerned that AEMO have not considered all the costs and risks that will be passed through to consumers if the preferred approach is adopted.*
- *EUAA Strongly recommends that AEMO undertake the following actions before deciding on the preferred approach to implementing PEC in the most efficient and least distortionary way possible:*
    - *Commission quantitative modelling to compare the dispatch and settlement outcomes for the alternative Victorian micro-slice and loop flow models in terms of impacts to consumers;*
    - *Delay a final decision on how to implement PEC Stage 2 until after the market can observe the initial results of the micro-slice model that will be used for implementing stage 1 of PEC; and*
    - *Should ultimately a network loop flow model be implemented, that negative settlement residues continue to be recovered from TNSPs rather than SRA unit holders.*

We were disappointed when AEMO's final Determination continued with the loop, leaving the Commission in a difficult position.

We are also disappointed with the Commissions Draft Determination, that has exacerbated the impact to consumers of negative inter-regional settlement residues (IRSR).

We are also disappointed that the Commission has made the draft determination while deferring issues to a future review of SRA arrangements. From this perspective, we consider that the current draft determination should be deferred until after that review, or that review takes place now, delaying the current process, but ensuring that all issues are adequately addressed. That the Commission uses a "timing" issue as an excuse for not completing a full review now is non sensical when the PEC loop will not be operational (for commissioning and testing) until at least Q4 2026, and not fully operational until late 2027. The Commission should undertake the full review of transmission residues, including the impact of loops now as part of the current work and release a revised draft determination.

OUR UNDERSTANDING OF TRANSMISSION LOOPS

As we understand the impact of PEC on the regions of SA, NSW and Vic:

- Transmission loops create an opportunity for parallel flows of power between regions (e.g. power may flow directly from NSW to SA on PEC and from NSW to SA via Vic on the existing VNI and the Heywood Interconnector or MurrayLink.
- It is expected that once the transmission loop is established, counter-price flows will frequently occur as a function of the physical flows of power on a meshed system, and with efficient market dispatch whereby power flows with negative IRSR on one interconnector will enable flows on another interconnector with greater positive IRSR (referred to as the 'spring washer effect').
- Market modelling commissioned by AEMO suggests that at least one 'leg' of the transmission loop may be producing negative IRSR over 50% of the time, even though there would usually be 'net positive' residues over the loop overall.
- Today, negative IRSR that arise in the NEM are allocated to TNSPs and are ultimately recovered from consumers in TUOS.
- Negative IRSR occur infrequently (e.g. when systems are constrained or generators are dispatched out of merit order) and are relatively low value because AEMO physically restricts ('clamps') interconnector flows to limit their accrual.
- Positive IRSR are the subject of settlement residue auctions (SRA) whereby market participants/traders can buy entitlements up to three years in advance as an interregional hedge. Auction proceeds are allocated to TNSPs and also passed on to consumers via TUOS.
- Currently, SRA proceeds are persistently lower than the actual positive IRSR that arise (often less than 50%), so market participants/traders are yielding substantial profits from the SRA process and consumers have little benefit flow through to TUOS.

IRSR ALLOCATION FOR LOOPS

While AEMO currently limits the impact of negative IRSR (and therefore the liability of TNSPs and consumers) by clamping interconnectors when electricity flows from a higher value region to a lower value region, this will not always be the case for transmission loops. AEMO will only clamp the new loops when net IRSR are negative, but will not clamp transmission loops if the net IRSR are positive (even if one leg of the loop has negative IRSR). We support AEMO's approach as there are benefits from the 'spring washer' effect for efficient electricity dispatch by having a net positive IRSR loop with one negative leg.

This operational methodology and the Commission's draft determination are inconsistent.

We consider that the current draft determination does not meet the National Electricity Objective (NEO) in the gross positive IRSR (and therefore upside risk) will be subject to the quarterly SRA, while the gross negative IRSR (and therefore downside risk) will be allocated to TNSPs and ultimately consumers, with no consideration of the net residues in the loop. The quantum of the negative IRSR will be higher (and therefore so will the financial impact to TNSPS and consumers) with the combination of the Commissions Draft Determination procedure and AEMO's operational procedure described above. This is an unfair re-allocation of risk.

Instead, we propose that the net IRSR for each loop in each trading period is what is allocated. For clarity, when a net positive IRSR exists even though one leg of the loop has a negative IRSR, it should be the net IRSR that is allocated to SRA, and no negative IRSR allocated to TNSPs and consumers. Given that the IRSR's created by the new loop will be mostly new IRSR, the impact to the SRA will be minimal. With AEMO clamping the loop when it has net negative IRSR, TNSP's and consumers are less exposed.

This approach would result in up to 80% less negative IRSR being allocated to TNSP's and therefore consumers in 2030 (compared to the draft determination).

NEGATIVE IRSR REGIONAL ALLOCATION

Similar to our commentary on the *Providing Flexibility in Allocation of Interconnector Costs Rule Change* consultation, we are aware of issues related to fairness and equity for consumers in allocating costs for new interconnectors. Utilising cost allocation methodology, where regions would pay a similar gross amount, the result when disbursed amongst the individual consumers, is that consumers in one region may pay significantly more than consumers in another region due to significant differences in population and loads. This is an inherently inequitable approach and significantly disadvantages one region over the other.

While we support the Commission's equitable allocation of negative residues to TNSP's according to the region's proportion of energy demand, we consider that this should be allocated on the actual demand in the trading period that the negative IRSR accrued, rather than the Commission's approach of allocating according to the proportion of a region's rolling average demand in the previous year.

Alternatively, similar to our commentary on AEMO's *Regional Benefit Directions Procedures* consultation, the Commission's proposed approach allocates the IRSR according to operational demand and does not allocate the IRSR on the basis of regional benefit of the negative IRSR (which would be the region receiving the net positive IRSR). The Commission's approach would see the allocation of negative IRSR incorrectly biased towards the region with the larger the operational demand purely due to AEMO's decision to operate PEC as a loop instead of a micro-slice.

In deciding how to allocate the negative IRSR, the Commission needs to provide evidence of the benefit of the loop to the regional split and allocation through modelling and presentation of the model outputs.

REVIEW OF SRA AND IRSR

While we support the Commission's intent for reviewing SRA arrangements and the allocation of IRSR with a view of the value to consumers, we consider that the Commission should wait until that review has occurred before

making the final determination on the current draft determination. Changing the SRA process will have significant impact to the decisions for allocation of IRSR created by transmission loops.

CONCLUDING REMARKS

We consider that the Commission needs to reconsider its draft determination with respect to allocating gross IRSR instead of net IRSR and how the negative IRSR is allocated to the regions. We would also expect that the review of the SRA would be part of this current draft determination or at least, would precede the final determination of the current draft determination.

Do not hesitate to be in contact should you have any questions.

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