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Inter-regional settlements residue arrangements for transmission loops submission.

Dear Madeleine

Energy Consumers Australia (ECA) thanks the Australian Energy Market Commission (AEMC) for welcoming views on the Inter-regional settlements residue (IRSR) arrangements for transmission loops draft determination.¹

As we explain in more detail below, ECA supports the AEMC's proposed allocation method for IRSR in the draft determination because it would appropriately reward consumers – who pay for transmission – with the revenue resulting from the benefits of transmission. Furthermore, we support the AEMC's intention to review whether the existing settlement residue auctions are delivering the most potential benefit to consumers.

Negative IRSR has been growing in recent years, and Project EnergyConnect (PEC), which will be included in the National Electricity Market Dispatch Engine (NEMDE) in Q4 2026, will constitute the first inter-regional transmission loop. Importantly, it is also expected to lead to higher magnitude and more frequent negative IRSR.²

Under current rules, negative IRSR is allocated to the transmission network service providers (TNSP) in the importing region, but in an inter-regional loop, this could create cash flow issues for TNSPs and cause consumer bill increases. In theory, the impact on all consumers would average out to zero net impact — just with more variability and risks of disparities between regions. But during consultation, AEMC has noted that this may not be the case in practice. In the rule change proposal, the Australian Energy Market Operator (AEMO) noted that business as usual approach to allocating residues may result in “(unfair) significant wealth transfer between consumers in the different NEM regions.”³

ECA supports AEMC's proposed solution in the draft determination of sharing negative IRSR between all regions in the loop and allocating negative IRSR to TNSPs in proportion to regional demand. ECA agrees that this allocation method manages risk by spreading it across participants and would lead to positive outcomes for consumers. ECA's view is that those who pay for transmission — consumers — should be the primary recipients of value from this proposed change to the National Electricity Rules (NER).

AEMO's initial rule change proposal would involve clamping counter-price flows in transmission loops when net IRSR for the loop is negative.⁴ ECA agrees with AEMC that the solution proposed in the draft determination is required in addition to AEMO's proposed solution to reduce the exposure of customers

¹ [ERC0386 IRSR arrangements for transmission loops - Draft determination](#)

² [ERC0386 IRSR arrangements for transmission loops - Draft determination](#) page iii

³ [New rule change proposal - AEMO - Integration of Project EnergyConnect into the NEM - 20240223.pdf](#) page 9

⁴ [New rule change proposal - AEMO - Integration of Project EnergyConnect into the NEM - 20240223.pdf](#)



to the risks of extreme negative IRSR. We note AEMC's view that AEMO may still implement this approach via procedure updates regardless of the outcome of this rule change process.

Without the proposed solution in the draft determination there is a risk that consumers would be exposed to a new type of negative IRSR that would be more unpredictable. Energy retailers would typically hedge wholesale volatility on behalf of the consumer, but IRSR costs are passed on by retailers to consumers.

ECA welcomes and supports the AEMC's intention to review whether existing settlements residue auctions (SRA) are providing the best outcomes for consumers in 2025-26. The SRA is intended to be a way for participants to manage inter-regional price risk; examining whether this is still providing the best outcomes is important, particularly in the context of this potential rule change and the introduction of PEC creating an inter-regional transmission loop. ECA argues that the following factors should be considered when determining whether the SRA is working in addition to those proposed by AEMC:⁵

- Does the SRA achieve more competitive pricing for consumers?
- Does the SRA achieve lower average prices for consumers?
- Was the outcome of the IRSR arrangements for transmission loops final determination beneficial for consumers and other market participants? Is there room for improvement?⁶
- SRA proceeds are persistently lower than actual positive residues. How can this be resolved to achieve the best outcome for consumers?

Yours sincerely

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⁵ ERC0386 IRSR arrangements for transmission loops - Draft determination page iv

⁶ Note that due to the timeline of this potential rule change and the addition of PEC to the NEMDE, it may be too soon to answer this question in the SRA review.