

30 January 2025

Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney NSW 2000  
Reference: ERC0386

Submitted electronically

**Inter-regional settlements residue arrangements for transmission loops  
Draft rule determination**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Inter-regional settlements residue arrangements for transmission loops Draft rule determination by the Australian Energy Market Commission (the Commission).

The decision by the Commission to ensure there are appropriate market arrangements for the transmission loop and to not make changes to the allocation of positive inter-regional settlements residue (IRSR) through settlements residue auction (SRA) arrangements is welcomed. The Commission's view to not make significant changes to market participants who use settlements residue distribution (SRD) units as key hedging instruments is important as any such changes could have impacted consumers in turn if higher portfolio costs flowed through to retail offers, or if it influenced retailers' decisions to operate in certain regions.

The Draft Rule will mean that it will ensure the greatest possible benefits of Project Energy Connect (PEC) for consumers through greater integration of renewable energy into the NEM along with increased inter-regional trade and contracting liquidity benefits for all looped regions. As noted by the Commission, consumers also benefit from reduced emissions, increased competition in the NEM, and improved security, reliability, and pricing outcomes.

The Commission's decision that there will be no requirement for AEMO to clamp is also important. Minimising instances of clamping when net IRSR is positive within a loop, maximises benefits for consumers of transmission infrastructure.

The Draft Rule notes that there is a case to review whether SRA arrangements are providing the best outcomes for consumers and market participants which is beyond the scope of this rule change request and is intended to be conducted in 2025-26. While the review will likely be considered later in the year we believe the Commission should consider the following from Snowy Hydro.

- 1) Financial markets are integral to inter-regional trading and good consumer outcomes

Settlement Residue Auction (SRA) units play in facilitating robust competition in the east coast retail markets 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.

The Commission notes that *"in the period from Q2 2004 to Q1 2024 (20 years, 80 separate quarterly auctions), SRD unit holders have paid consumers \$2.9b, and have received \$4.0b in IRSR, in nominal terms. In the end concluding that consumers have made a loss of \$1.1b in nominal terms on these financial instruments. For every \$1 of IRSR sold, consumers have received \$0.72 in return."* This summary by the Commission assumes consumers pay the spot price and ignores the benefits of hedging.

Consumers are not directly exposed to spot prices. Retail customers typically buy electricity from energy retailers at contract prices rather than being exposed to regional spot prices. Instead the wholesale component of retail prices is determined using a risk-adjusted hedged book which is usually over several years in order to minimise exposure to high spot prices. This means pricing impacts on end consumers are not easily observed through pool prices only.

The inter-regional settlements residue arrangements (IRSR)'s allow generators in adjacent regions to hedge contracts for customer loads, but the IRSR is not firm in volume for the periods of spot price exposure. For this reason the SRA units are purchased at a discount to the regional swap contract price. The IRSR can also assist in reducing market risk for generators when there are plant outages in the portfolio, as flows typically increase into the plant outage region alongside experiencing higher prices. This mechanism supports competition in the contracts market through increased supply of contracts, to add downwards pressure on contract prices.

Hedging risks through SRD units, market participants can significantly reduce their own and in turn customers' exposure to high price events. By firming future wholesale revenue and costs through such risk management strategies, risk premiums within consumer profiles and contracts are lowered.

Consumers are benefiting from SRA units. The revenue from the SRA is only part of how consumers benefit; they also benefit from retailers' reduced hedging costs as a result of the use of SRA units to manage inter-regional price risk. The Commission should understand that SRA units should be expected to sell for less than the total value of positive IRSR as if they did not there would be limited incentive for anyone to buy them.

Inter-regional trade is a key feature of the NEM and has delivered significant benefits over the years. Market participants operate sophisticated multi-regional portfolios to deliver these benefits, encouraging efficient market outcomes supported by interconnectors such as Project Energy Connect. The introduction of Project Energy Connect will result in interregional hedging likely taking on greater importance and reinforce the ongoing need for settlement residue auctions to support interregional trade, liquidity, and the efficient functioning of the NEM.

- 2) The Commission should as part of the review undertake a thorough assessment of the financial markets and the impact of hedging.

SRA's should be considered within the context of the broader financial contract market due to their role in enhancing liquidity and firming trade across regions. For example,

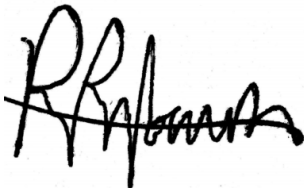
in low liquidity environments such as South Australia, SRA'S enable effective replication of Victorian swap positions into South Australian swaps. This helps to foster competition in regions that might otherwise suffer from a lack of market participants. The benefits of risk management practices also accrue to consumers.

### **About Snowy Hydro**

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro appreciates the opportunity to respond to the Commissions Inter-regional settlements residue arrangements for transmission loops Draft rule determination. Any questions about this submission should be addressed to [panos.priftakis@snowyhydro.com.au](mailto:panos.priftakis@snowyhydro.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read "P. Priftakis".

Panos Priftakis  
Head of Wholesale Regulation  
Snowy Hydro