



6 December 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

EPR0032 - Management of negative inter-regional settlements residues

Origin Energy (Origin) appreciates the opportunity to provide comments to the Australian Energy Market Commission (AEMC) Draft Report on the management of negative inter-regional settlements residues. Origin recognises the requirement to restrict the accumulation of negative inter-regional settlement residues (IRSRs) to limit the funding obligation incurred, currently imposed on the Transmission Network Service Provider and consumers of the importing region. Origin considers the \$100,000 threshold and the Australian Energy Market Operator's (AEMO) application of the Negative Residue Management (NRM) policy to be broadly appropriate, based on the materiality of negative IRSRs.¹

Origin supports the findings and recommendations of the AEMC in the Draft Report. Origin broadly supports the AEMO NRM policy and considers the current arrangements are appropriate. The AEMC has not identified a significant failing in the current arrangements. There is, therefore, no rationale for significant change to the IRSRs policy of threshold. The AEMC's recommendations could provide incremental improvements and transparency to AEMO's application of the NRM constraint, proportionate to the materiality of negative IRSRs.

The NRM policy

The NRM policy, developed by the AEMO, serves an important role to minimise the funding obligation accruing from negative IRSRs. Notwithstanding this, the application of the NRM constraint, to minimise the accumulation of negative IRSRs, is an intervention in the NEM to manage the impact of a binding intra-regional constraint. Origin recognises network limitations, causing binding intra-regional constraints, are generally augmented or 'built-out' over time leading to individual causes of negative IRSRs to be transitory in nature.

The current asymmetrical or 'swamping' application of the NRM constraint can, however, lead to spot price volatility in the importing and exporting region. The materiality of any potential volatility should be considered in the context of the ability of Market Participants to rebid generation or load in response to changing market conditions - recognising generators and load located at different connection points within a region represent either a positive or negative co-efficient on a constraint equation.

¹ The AEMC identified approximately \$26 million of negative IRSRs accruing between 1 July 2010 and January 2013. p. 7.

Changes to the application of the NRM constraint could result in a reduction in spot price volatility in the NEM. Equally, however, changing how the NRM constraint is applied may result in changes that impact the market differently. Incremental changes that improve or enhance the NRM policy should be supported provided the cost of developing the proposed change is commensurate with the benefits accrued from doing so, consistent with the National Electricity Objective (NEO).

Stability of the NRM policy

Origin recognises the balance when setting the benchmark to trigger the NRM constraint between minimising interventions in the NEM and minimising the funding obligation through the accumulation of negative IRSRs. Where a material cost or benefit for changing the benchmark for the NRM constraint cannot be identified, we are supportive of the AEMC leaving the threshold unchanged to maintain consistent parameters in the NEM.

Conclusion

Origin supports the AEMC findings and recommendations outlined in the management of negative IRSRs Draft Report. Origin considers the current arrangements for managing negative IRSRs are appropriate with the application of the \$100,000 threshold and AEMO NRM policy generally working well to date. In the absence of a significant failing with the current NRM arrangements, the recommendations could lead to incremental improvements in the transparent and operational application of the NRM policy, proportionate to the materiality of negative IRSRs.

Should you have any questions or wish to discuss this information further, please contact Ashley Kemp on (02) 9503 5061 or ashley.kemp@originenergy.com.au.

Yours sincerely,



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