

1 December 2023

Stakeholder Relations

Australian Energy Market Operator

By email: StakeholderRelations@aemo.com.au

Re: Project EnergyConnect Directions Paper

As the primary TNSP for the South Australian region and the proponent for the South Australian section of Project EnergyConnect (PEC), ElectraNet welcomes the opportunity to provide this submission in response to the Project EnergyConnect Implementation Paper.

We appreciate the efforts of AEMO and the Settlements Residue Committee in presenting credible options to address the management of loop flows potentially arising from the interconnection of the South Australian, New South Wales and Victorian regions.

We recognise the challenges presented in integrating PEC into the National Electricity Market (NEM), especially the creation of a physical transmission loop between regions, which is expected to commonly result in negative inter-regional settlements residue (IRSR) driven by transmission loop flows.

Maintaining the current practice of clamping negative IRSR on individual interconnectors is neither technically feasible nor economically efficient, especially when the aggregate settlement around the loop is in surplus. Alternative methodologies are required to ensure that negative IRSR are efficiently allocated around the loop and that those best able to manage the volatility of the exposure.

In considering appropriate principles for reallocation of negative IRSR, AEMO should have regard to the principles on which prescribed transmission pricing is based.

In their 2006 Pricing of Prescribed Transmission Services Final Determination (the determination) the AEMC sought to ensure that the rules for transmission pricing should:

“...promote good regulatory practice by enhancing:

- *Stability and predictability – that is, transmission prices should be stable and predictable enough to enable market participants to make long term decisions; and*

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A decorative graphic in the bottom right corner of the page, featuring a dark red background with a white geometric pattern of lines and shapes, resembling a stylized power line or transmission tower structure.

- *Transparency – the process for setting prices should be as transparent as practicable to give participants confidence that pricing outcomes will be consistent with the NEM Objective and the Rules.”¹*

The determination noted that these outcomes can be best achieved by, among other things, clarifying the link between transmission costs and the prices paid by electricity consumers, both in terms of cost attribution and timing, and by ensuring that transmission prices provide efficient locational and investment signals to participants.

Transmission prices are broadly reflective of the relative utilisation of intra-regional network elements by individual customers. Recovering negative IRSR already diminishes this to some degree, but the low levels recovered via transmission prices to date has not materially undermined the objectives of cost reflectivity and stability.

However, there is no avoiding the fact that the existing recovery mechanism is arbitrary, with the allocation to customers via TUOS bearing no relationship to the accrual of negative IRSR in the market. As the scale of settlements residue related recovery increases, the arbitrary nature of recovery will destroy the price signals that the AEMC identified as appropriate.

It is imperative that alternative mechanisms for the recovery of negative IRSR are designed to align with the actual beneficiaries of inter-regional trade and that they preserve cost reflectivity to the extent possible. Such mechanisms should be proportionally equitable, ensuring that the financial burden is commensurate with the derived benefits. It is in the long term interests of our customers for this responsibility to fall either on the holders of the units or on market participants at large. This would establish a fairer, more rational approach that directly correlates the costs incurred to those who reap the benefits, thereby enhancing the overall efficiency and equity of the market.

A further issue with the current process is the treatment of positive IRSR arising from unsold or surrendered settlements residue units on interconnectors. These are paid to the importing TNSP. Again, while historically a very minor risk this methodology is likely to be unsustainable when PEC enters the NEM.

In developing alternative recovery mechanisms consideration must be given to the scale of settlements residue related exposures TNSPs versus TNSP revenues which stand in stark contrast to the relationship between those exposures and the total settlements in the NEM.

Our responses to specific questions are provided in the template attached.

Should you have questions in relation to this submission please contact ElectraNet’s Pricing Manager, Bill Jackson in the first instance.

Yours sincerely



Jeremy Tustin

Manager Regulation

¹ p2 Rule Determination for National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006

PEC Market Integration Directions Paper - List of consultation questions

No.	Category	Questions for consultation	Stakeholder response
1	Current process	AEMO considers the current process is unsuitable and will restrict efficient dispatch. Are there any additional advantages or disadvantages with the current process identified by stakeholders that could apply in the context of transmission loop flows?	<p>A problem with the current process is the treatment of positive inter-regional settlement residues arising from unsold or surrendered units or new interconnector capacity that has not been converted into SRA units. These are paid to the importing TNSP.</p> <p>The materiality of this may increase substantially when PEC enters the NEM. This would fundamentally undermine the objective of stability in transmission prices for customers.</p>
2	Approach	<p>AEMO considers regulatory precedent requires negative residue management be retained for periods where IRSR is in deficit around the loop, that this be automated as far as possible, and limited to \$100,000 and any accruing negative residues be allocated to the importing TNSP.</p> <p>For these instances, there would not be any reallocation required. Are there any other approaches to negative residue management AEMO should consider?</p>	<p>It is prudent to consider the underlying reasons which lead to a regulatory position rather than regulatory precedents per se.</p> <p>TNSPs were considered a reasonable sink for negative inter-regional settlements residue as the exposures were relatively minor versus their revenues. Clearly under the new arrangements this assumption does not hold and the ability to manage the significant cashflow implications must be reconsidered. The cost reflectivity of transmission prices will be fundamentally undermined.</p> <p>Clamping to reduce negative residues remains an important tool to limit the exposure of the ultimate recipients of those residues.</p>
3	Approach	<p>In considering the reallocation approach, AEMO considers a sensible method is to allocate negative residues in proportion to the positive residues on the other interconnectors in the loop.</p> <p>AEMO considers it is preferable that an interconnection that is negative not receive a proportion of the positive residues. Do stakeholders agree?</p>	<p>Sharing around the loop is fair and reasonable given the negatives are necessary for the efficient operation of the legs of the loop.</p>

No.	Category	Questions for consultation	Stakeholder response
4	Approach	Do stakeholders consider these approaches to be reasonably robust, irrespective of whether negative IRSR is deducted from the payouts to SRA unit holders?	The reallocation of negatives around the loop is prudent.
5	Approach	Do stakeholders have a different method for the reallocation of negative IRSR that should be considered?	The TNSPs support efforts to minimise negative inter-regional settlements residue. Our strong preference is to have the residual exposure with unit holders or the market more broadly in order to
6	Approach	Which option best meets the guiding principles identified in Appendix A.3? Are the other options that also meet the guiding principles that should be considered?	Nil
7	Approach	Should AEMO propose a method that deducts negative IRSR from the payout to SRA unit holders; or reallocates negative IRSR, in proportion to positive IRSR, directly to consumers in the importing regions?	<p>In considering who the negative residues should be reallocated to immediacy of the price signalling should be considered.</p> <p>Specifically, both negative and positive are settlements residues are most relevant to and manageable by traders and unit holders.</p> <p>Recovery from consumers in the importing regions via TNSP pricing is incorrectly characterised as direct. This avenue has significant delay, substantially impacts TNSP revenue recovery and will drive significant volatility in transmission prices.</p>
8	Approach	What, if any, other factors need to be included when considering the payment for negative IRSR?	As noted above while TNSPs were considered a reasonable sink for negative inter-regional settlements residue as the exposures were relatively minor versus their revenue. This is unlikely to be sustainable in the new arrangements where TNSP IRSR related exposures may become significant versus their allowed revenues.

No.	Category	Questions for consultation	Stakeholder response
9	Implementation	<p>The reallocation approach would require updates to AEMO's settlement systems and procedures. What does AEMO need to consider in terms of:</p> <p>Participant or TNSP market and settlement systems?</p> <p>Timing of implementation?</p>	<p>Material increases in TNSP exposure may result in TNSPs being drawn into AEMO's prudential framework. The impacts of this will need significant consideration.</p>