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EnergyAustralia

LIGHT THE WAY

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Project Energy Connect Implementation — Directions Paper — 14 November 2023

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate AEMO continuing to explore the possible effects of Project Energy Connect on regional pricing and associated inter-regional settlement residues. The modelling work commissioned from ACIL Allen has been particularly useful in illustrating the frequency of occurrence and value of negative residues arising from the proposed loop flow configuration.

We are generally supportive of AEMO's assessment and preliminary recommendations:

- We agree with the proposed approach of reallocating negative residues in proportion to positive residues in importing regions, as it reflects the benefit accruing to those regions that is enabled by the loop flow configuration.
- We agree that reallocation should apply directly to customers rather than to Settlement Residue Auction (SRA) units. Reallocation of negative residues to unrelated network elements would fundamentally change the functioning of SRA units as an important instrument used to manage inter-regional risk. Doing so would likely have detrimental effects on trading outcomes and increased participant costs, which would be passed back to customers. The importance of SRA units will grow over time as the NEM becomes increasingly reliant on inter-regional power transfers, reflecting large volumes of geographically diversified wind and solar generation.
- We note AEMO's findings that, if negative residues are allocated to directly to customers, this could create material cashflow impacts for Transmission Network Service Providers. We have some reservations about how this would be managed and ultimately affect end user electricity prices, particularly if network operators (rather than AEMO) were responsible for forecasting cashflow volatility and setting premia for the associated risk. However as per AEMO's position, on

balance we consider this would be less detrimental to the market overall and have less unintended consequences than altering SRA arrangements.

- We note that ACIL Allen was not asked to model residue treatments under a 'micro-slice' regional boundary configuration. As noted in our previous submission¹, stakeholders would benefit from seeing illustrative price outcomes under this configuration and other measures to demonstrate its feasibility (or otherwise). We understand AEMO conducted a preliminary assessment of this option and found it did not solve the problem of increased negative residues. AEMO also states it would likely give rise to uncertain and more variable settlement outcomes. Publishing quantitative analysis of these outcomes would help inform and confirm that customers would be better off under the prospective loop flow arrangement and proposed approach for residue reallocation.
- We also note that ACIL Allen examined different tap settings for the project's phase shifting transformers and appreciate AEMO releasing this information. Control over these settings should deliver material market benefits, including minimisation of residues. We appreciate taps will be initially set manually as a proof of concept, and that ongoing monitoring may inform whether there is value in having them optimised in dispatch at a future date.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

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Regulatory Affairs Lead

¹ [EnergyAustralia_AEMO Project Energy Connect integration paper_19 Jan 2023.pdf](#)