



1 December 2023

Daniel Westerman  
CEO and Managing Director  
Australian Energy Market Operator (AEMO)

Submitted via email: [NEMReform@aemo.com.au](mailto:NEMReform@aemo.com.au)

Dear Mr Westerman,

### **Project EnergyConnect (PEC) Market Integration Directions Paper**

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback on AEMO's directions paper on PEC Market Integration. Origin considers that any implementation option for PEC should seek to preserve the value of inter-regional trading, including by recovering negative residues from TNSPs, consistent with how they are currently recovered. We also re-iterate the importance of consulting on the multiple implementation options for PEC (i.e., as a loop or using a different configuration such as the micro-slice) to promote transparency and ensure stakeholders understand all alternatives.

#### **Reallocation and payment of negative inter-regional settlement residues**

Origin considers that any implementation option for PEC should seek to preserve the value of the settlement residue auction (SRA) units across the new interconnector given the importance of inter-regional trading in the NEM. Any reallocation of negative residues to these units will affect SRA units as a hedging product and lower participants' ability to manage inter-regional risk.

Consistent with this principle, if AEMO proceeds with the re-allocation option, we agree with the preferred positions set out in the Directions Paper:

- Only negative inter-regional settlement residues should be redistributed, as proposed in the Directions Paper. Reallocating all residues (i.e., including positive residues) would likely erode the value of SRA units.
- Negative residues should be recovered from TNSPs as proposed by AEMO, not from SRA unit holders. This would largely maintain existing arrangements for how negative residues are recovered. It would also ensure that the impact on SRA units is minimal to support financial trading.

The directions paper notes that allocating negative residues to TNSPs could create cashflow issues due to a two-year lag in when the costs are incurred and when businesses can recover them from consumers. We understand that while negative residues are recovered from TNSPs currently, this might become an issue once PEC is in operation as the quantum of the negative residues could become significant. To the extent it becomes a significant problem, then it should be resolved by examining potential changes to the economic regulation framework for transmission network businesses, rather than by making changes to SRA units that would erode the value of inter-regional hedging.

#### **Consultation process and options for integrating PEC**

In our submission to the consultation paper, Origin suggested AEMO should publish a comprehensive consultation paper to set out the implications of the two integration options (loop or micro-slice) for PEC, including the impact of each alternative.

While we understand that AEMO considers the loop as the most efficient way for integrating PEC into the NEM, from a regulatory reform perspective, we continue to consider AEMO should consult on the different options for integrating PEC, i.e., as a loop or as a micro-slice or any other plausible configuration. Consulting on options (including providing modelling results for all alternatives) would give

stakeholders the opportunity to consider the trade-offs and implications of the various solutions. This would help to provide confidence that AEMO's preferred option is the most efficient way of integrating PEC into the NEM.

Should you have any questions or wish to discuss this submission further, please contact me at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Derby'.

Sarah-Jane Derby  
Senior Manager, Regulatory Policy