



Consultation on Settlements Residue Auction Rules - EnergyConnect

Draft Report – Expedited consultation
for the National Electricity Market

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New South Wales | Queensland | South Australia | Victoria | Australian Capital Territory | Tasmania | Western Australia

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Explanatory statement and consultation notice

The publication of this draft report commences AEMO's expedited consultation under the National Electricity Rules (NER) on changing the settlements residue auction rules (SRA Rules), including the auction participation agreement (APA), to:

- establish new unit categories for the EnergyConnect interconnector (PEC); and
- facilitate the auction and return of units affected by the recent NER amendment for inter-regional settlements residue on transmission loops¹ (IRSR rule), so as to conduct at least one auction of PEC units by 1 October 2026,

(the **proposal**).

Consultation on the proposal is undertaken as required by NER 3.18.3(d) and 11.188.2, following the procedure in NER 8.9.3. AEMO has obtained initial feedback from the Settlement Residue Committee (SRC) prior to commencing this consultation.

AEMO is using the expedited rules consultation procedure as permitted by NER 11.188.2(c), and accordingly is not inviting requests to switch to the standard rules consultation procedure². AEMO may, however, decide to do so after considering any relevant issues raised by stakeholders in the course of consultation.

AEMO's draft determination is to amend the SRA Rules in the form published with this draft report, with a proposed effective date of **26 February 2026**.

Consultation notice

AEMO invites written submissions from interested persons on this draft report and the draft SRA Rules amendments to NEMReform@aemo.com.au by 5:00pm (Melbourne time) on **12 January 2026**.

Submissions may include alternative or additional proposals you consider may better meet the objectives of this consultation and the national electricity objective in section 7 of the National Electricity Law. Please include supporting reasons.

Before making a submission, please read and take note of AEMO's consultation submission guidelines, which can be found at <https://aemo.com.au/consultations>. Subject to those guidelines, submissions will be published on AEMO's website.

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so. Material identified as confidential may be given less weight in the decision-making process than material that is published.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

¹ National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops) Rule 2025, available at <https://www.aemc.gov.au/rule-changes/inter-regional-settlements-residue-arrangements-transmission-loops>

² NER 8.9.3(b)

Interested persons can request a meeting with AEMO to discuss any particularly complex, sensitive or confidential matters relating to the proposal. Please refer to NER 8.9.1(k). Meeting requests must be received by the end of the submission period and include reasons for the request. AEMO will try to accommodate reasonable meeting requests but, where appropriate, we may hold joint meetings with other stakeholders or convene a meeting with a broader industry group. Subject to confidentiality restrictions, AEMO will publish a summary of matters discussed at stakeholder meetings.

Contents

Explanatory statement and consultation notice	3
1. Stakeholder consultation process	6
2. Background	7
2.1. Context for this consultation	7
2.2. NER requirements for SRA Rules	8
2.3. The national electricity objective	8
3. Proposal discussion	9
3.1. Introduction	9
3.2. New unit categories	9
3.3. SRDA termination parameters	10
4. Draft determination	11
4.1. Draft determination	11
4.2. Effective date	11
Appendix A. Glossary	12

1. Stakeholder consultation process

As required by National Electricity Rules (**NER**) 3.18.3, AEMO is consulting on changes to the settlements residue auction rules (**SRA Rules**), including the auction participation agreement (**APA**) to:

- establish new unit categories for the EnergyConnect interconnector (**PEC**); and
- facilitate the auction and return of units affected by the recent NER amendment for inter-regional settlements residue (**IRSR**) on transmission loops³ (**IRSR rule**), so as to conduct at least one auction of PEC units by 1 October 2026,

(the **proposal**).

AEMO is using the expedited rules consultation procedure in NER 8.9.3, in accordance with NER 11.188.2(c).

Note that this document uses terms defined in the NER, which are intended to have the same meanings. There is a glossary of additional terms and abbreviations in Appendix A.

AEMO's process and expected timeline for this consultation are outlined below. Future dates may be adjusted and additional steps may be included as needed, as the consultation progresses.

Table 1 Consultation process and timeline

Consultation steps	Indicative Dates
Initial consultation with settlements residue committee (SRC)	7-21 November 2025
AEMO commences consultation on draft auction rules	28 November 2025
Submissions close on draft auction rules	12 January 2026
AEMO publishes final decision on auction rules	2 February 2026
SRC Approval of auction rules (SRC Meeting)	9 February 2026
Proposed effective date for amended SRA Rules	26 February 2026.

Before commencing the expedited consultation procedure, AEMO discussed the scope of SRA Rules changes required to facilitate implementation of the IRSR rule with the settlement residue committee (**SRC**), and has considered feedback from SRC members in developing the proposal. This is outlined in section 3.

³ National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops) Rule 2025, available at <https://www.aemc.gov.au/rule-changes/inter-regional-settlements-residue-arrangements-transmission-loops>

2. Background

2.1. Context for this consultation

AEMC published its final determination on the IRSR rule on 25 September 2025 and it commenced on 2 October 2025. The rule replaces the previous NER 3.6.5 with new clauses 3.6.5 and 3.6.6, providing for the distribution, recovery and allocation of settlements residue. These clauses include new requirements for IRSR arising on ‘parallel interconnector configurations’ or ‘looped interconnectors’, ahead of the expected commissioning of stage 2 of PEC, currently scheduled for late 2026.

PEC will be a nominal 800 MW bidirectional interconnector between South Australia and New South Wales, with an additional connection to Victoria. This will require IRSR to be allocated across three sets of directional interconnectors, with the IRSR rule providing for a ‘net trade’ approach to allocation. More information about the EnergyConnect interconnector and its integration into the NEM is available on the project website⁴ and AEMO’s website⁵ respectively.

The IRSR rule includes transitional provisions (NER 11.188) for the:

- ‘Loop operations start date’, when PEC is represented as a separate directional interconnector in AEMO’s dispatch systems (must occur between on 1 October and 2 November 2026).
- ‘Loop settlements start date’, when AEMO’s settlement system is updated to allow settlements to occur for looped interconnectors under the new arrangements) (must occur between the ‘loop operations start date’ and 2 November 2026).

If there is any gap between the ‘loop operations start date’ and the ‘loop settlements start date’, the current IRSR calculation arrangements for radial interconnectors will apply to loop flows in that period. AEMO’s current plan is to:

- Represent the PEC loop in AEMO’s dispatch systems from 1 October 2026.
- Commence new IRSR calculations on 1 November 2026 (start of settlement week) – this is anticipated to be the earliest feasible system implementation for the settlements methodology change.

Under the IRSR rule, AEMO must also:

- Use reasonable endeavours to establish new unit categories for PEC and conduct at least one auction of those units before October 2026 (starting from Q4 2026).
- Review and amend the SRA Rules as necessary or appropriate to take account of the IRSR rule, before the earlier of four weeks prior to the loop operations start date and 10 business days prior to the first auction of PEC unit categories.

AEMO is endeavouring to hold the first PEC unit auction in September 2026 (for Q4 2026). As explained in section 3, SRA Rule changes are required or desirable to facilitate the auction process and to account for the effect of the IRSR rule. To allow those processes to be implemented in an orderly way, AEMO is aiming to make its final determination on the proposal in February 2026.

⁴ <https://www.projectenergyconnect.com.au/>

⁵ <https://www.aemo.com.au/initiatives/major-programs/nem-reform-program/nem-reform-program-initiatives/project-energyconnect-market-integration-project>

2.2. NER requirements for SRA Rules

The SRA Rules are made by AEMO under NER 3.18.3. Together with NER 3.18, they establish the requirements for conducting auctions of 'SRD units', representing the right to receive a proportion of the IRSR on directional interconnectors. SRD units may only be allocated to 'eligible persons' who meet the eligibility criteria in the NER and SRA Rules, and have entered into an APA with AEMO.

Among other matters, the SRA Rules must set out the procedures and timing for the conduct of auctions, and the standard form of the APA.

Under NER 3.18.3(b), the SRA Rules should give effect to the following principles:

- to the extent reasonably practicable, an auction must be structured in a way that maximises the value of the relevant settlements residue;
- the price for each SRD unit to be paid by eligible persons will be the same for all SRD units cleared in the same auction and will be equal to the auction clearing price in respect of the directional interconnector for the auction; and
- enhancing competition and efficiency by promoting interstate trade in electricity.

2.3. The national electricity objective

Within the specific requirements of the NER applicable to this proposal, including the principles noted above for the SRA Rules, AEMO will seek to make a determination that is consistent with the national electricity objective (NEO) and, where considering options, to select the one best aligned with the NEO.

The NEO is expressed in section 7 of the National Electricity Law as:

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia's greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

3. Proposal discussion

3.1. Introduction

AEMO has identified that the IRSR rule affects the content of the SRA Rules in two main ways.

First, AEMO must auction SRD units relating to PEC once it is represented as a new directional interconnector in AEMO's dispatch systems. As explained in section 2.1, AEMO is targeting the initial auction for these units in September 2026, for quarters from Q4 2026 onwards. Clause 4.2 of the SRA Rules lists the current unit categories for each directional interconnector. Although there is provision for new categories to be introduced without necessarily amending the SRA Rules, for transparency reasons AEMO considers it desirable for such changes to be reflected in the SRA Rules themselves.

Second, the looped interconnector operation and the associated IRSR settlement arrangements will change the calculation of IRSR for the two existing directional interconnectors between Victoria and South Australia, and the two between Victoria and New South Wales. Based on the operational start dates in the IRSR rule, this will affect SRD units in those four categories allocated before 25 September 2025⁶, for Q4 2026 onwards (**affected units**). While a change of this nature appears to trigger termination rights for affected SRD agreements under clause 16.5 of the existing APA, there is no process to exercise those rights in an orderly and efficient way.

The remainder of this section summarises the proposal to amend the SRA Rules to:

- Add new unit categories representing PEC.
- Include parameters for participants to exercise rights to terminate SRDAs for affected units.

3.2. New unit categories

AEMO proposes to add two new unit categories representing PEC to the table in clause 4.2(a) of the SRA Rules, as follows:

Unit category	Directional Interconnector
SANSW	South Australia to New South Wales
NSWSA	New South Wales to South Australia

Initial feedback from SRC members did not raise any objections to this inclusion in the SRA Rules.

In accordance with clause 4.3 of the SRA Rules, AEMO will determine and publish the maximum number of units and proportions for each new category on its website. AEMO expects to confirm these amounts after further input from the SRC in early 2026. The earliest feasible auction date for these units is in September 2026, for relevant quarters from Q4 2026.

⁶ The publication date of the AEMC's final determination on the IRSR rule.

3.3. SRDA termination parameters

The AEMC published its final determination on the IRSR rule on 25 September 2025. As explained in section 3.1 above, the effect of IRSR rule is likely to provide a basis for termination of existing SRD agreements for affected units.

This right is provided for in clause 16.5 of the APA, but the SRA Rules do not provide for a clear or workable process for exercising those rights. Where changes are known significantly in advance of affected quarters, AEMO considers that such a process should balance reasonable opportunity for re-auction with reasonable flexibility for informed decision-making for later tranches, whilst minimising uncertainty.

Initial discussions with the SRC confirmed a desire for certainty on the process for returning affected units, including in relation to timing requirements, the means of giving notice, ability to return affected units without terminating the SRD agreement in relation to unaffected unit categories, and the implications for return of affected units acquired via secondary trades.

To address this issue, AEMO proposes the following amendments to the SRA Rules:

- New clause 10A of the SRA Rules providing for AEMO to determine and publish (with SRC approval) requirements and conditions for the exercise of any right under the APA to terminate an SRD agreement for a change in IRSR calculation, where that change will affect SRD units for relevant quarters that have not commenced at the time of publication of the change. Requirements may include (without limitation) the specification of affected units, continuation of SRDAs for non-affected units, the form and manner of termination notice, and the timeframes within which notice must be given prior to a relevant quarter.
- Provision in new clause 10A.3 relieving an auction participant from the requirement to pay the purchase price for cancelled units if they are validly returned by the participant who acquired them in a secondary trade. A corresponding qualification is proposed in clause 12, which contains the obligation to pay the purchase price for cancelled units.
- New clause 16.3 providing for returned SRD units to be made available in the next auction(s) if possible, with settlements residue for any unallocated units to be distributed to the relevant NSP.
- Amendments to the form of APA in Schedule 1 of the SRA Rules as follows:
 - Amended clause 16.5 to provide for any termination right under this clause to be exercised subject to and in accordance with any requirements published by AEMO under the auction rules.
 - Amended clauses 5.2, 5.4 and 6.2 to confirm explicitly that, respectively, the allocation of units, SRD agreements and payment for cancelled units are subject to the terms and conditions of the auction rules.
 - Amended clause 18.1 (Notices) to allow service of notices by email or another means specified under the auction rules, and remove fax (currently the APA only allows notices by post, in-person delivery or fax).
 - Minor typographical, formatting and drafting fixes for correction and consistency.

Participants may need to sign new APAs if they wish to exercise termination rights, to facilitate the giving of valid notices.

These proposed amendments are intended to provide the flexibility to design appropriate process requirements for the exercise of existing termination rights, in the context of the IRSR rule as well as any similar scenario that may arise for future regulatory changes. The detailed aspects of the specific process for the return of units affected by the IRSR rule would be finalised in conjunction with the SRC subsequent to this consultation.

4. Draft determination

4.1. Draft determination

AEMO has prepared a draft of amendments to the SRA Rules, including the APA, reflecting the proposal in this report. The draft amendments are published with this draft report in mark-up format from the current version. AEMO's draft determination is to make the amendments in that form.

4.2. Effective date

AEMO's proposed effective date for the determination is currently **26 February 2026**.

Appendix A. Glossary

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator Limited
APA	Auction participation agreement, the standard form of which is set out in schedule 1 to the SRA Rules
IRSR	Inter-regional settlements residue
IRSR rule	<i>National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops) Rule 2024</i>
NER	National Electricity Rules
PEC	Project EnergyConnect, the project name for the development of the new EnergyConnect interconnector
SRA	Settlements residue auction
SRA Rules	The 'auction rules' for SRAs made under NER 3.18.3, incorporating the form of APA
SRC	Settlement Residue Committee
SRD	Settlements residue distribution
SRDA	Settlement Residue Distribution Agreement