15 July 2025

Australian Energy Market Commission

Submitted online at: www.aemc.gov.au

Dear Sir / Madam,

Stanwell Submission – Directions Paper: National electricity amendment (inter-regional settlements residue arrangements for transmission loops) Rule 2025

Stanwell Corporation Limited (Stanwell) appreciates the opportunity to provide feedback to the Australian Energy Market Commission's (AEMC) National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops) Rule 2025 Directions Paper (the Directions Paper).

Stanwell is Queensland's leading provider of electricity and energy solutions to the National Electricity Market (NEM), and large energy users along the eastern seaboard of Australia. With over 40 years of continuous operations, Stanwell maintains a reliable supply of power from two of the most efficient and reliable coal-fired power stations in Australia - the Tarong power stations near Kingaroy and Stanwell Power Station near Rockhampton.

Stanwell's experience in working with communities to build, operate and maintain reliable energy generation assets is being applied to the shift to renewable energy, as we work on a pipeline of renewable energy and storage projects throughout Queensland.

This submission contains the views of Stanwell only and should not be construed as indicative or representative of the views or policy of the Queensland Government.

Context:

Together with the existing interconnectors between New South Wales, Victoria and South Australia, Project Energy Connect (PEC) creates the first interregional loop in the National Electricity Market (NEM).

1. AEMC's approach in Inter-Regional Settlement Residue (IRSR) consultation process

Stanwell acknowledges that without the proposed "netting off" arrangements, despite clamping when the loop is "net negative", Transmission Network Service Providers (TNSPs) may be exposed to extreme negative IRSR.

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Nonetheless, Stanwell is extremely concerned with the dramatic shift in policy direction between the Draft Determination and the Directions Paper for the following reasons:

- Alternative options were not properly considered during earlier rounds of consultation.
- The solution presented in the Draft Determination, which received an overwhelmingly positive response from both Market Participants and Market Bodies, has now been essentially replaced in the Directions Paper.
- The revised shift in policy is significant and impacts energy Market Participants.
- The impacts of the "netting off" approach does not appear to have been properly understood nor assessed in the Directions Paper.

2. Impacts of "netting off" on the value of Settlement Residue Auctions and retail competition

Importance of SRAs

Settlement Residue Auctions (SRAs) are an important tool allowing participants to hedge inter-regional risk. SRA units allow generators in one region to manage risk of price separation with adjoining regions, which then allows them to offer hedge cover in these regions. It also provides retailers who might not have generation available in each region with the ability to compete in those markets, increasing competition and decreasing prices for customers.

The proposed "netting-off" approach in the Directions Paper would reduce the value of SRAs, reduce transparency in costs, and is consequently expected to reduce an SRAs effectiveness as a hedging tool.

The Directions Paper recognises this to a degree, however, it fails to realise that alternative measures to manage these risks such as over the counter (OTC) contracts or other bespoke financial products will be less efficient and therefore more expensive than SRAs. This will result in higher costs, which will ultimately be reflected in customers' bills.

Shifting risk from TNSP to market participants is likely to increase costs

The Draft Determination acknowledges that net negative outcomes in a transmission loop would usually be driven by interregional constraints. The costs for the market are a direct reflection of network inefficiencies.[1]

Since TNSP's manage the networks, it is the TNSPs and not Market Participants which are best placed to manage transmission constraints and line outage risks.

Removing TNSPs exposure to cashflow risks by "netting off" reduces their incentive to minimise network inefficiencies, and thus costs to consumers.

3. How to address negative IRSR

Stanwell's preference to address negative IRSR would have been to proceed with the recommendations made in the Draft Determination. However, should the AEMC proceed as per the Directions Paper with its proposed "netting off" option, Stanwell considers the approach recommended in the Directions Paper may be workable, if a number of issues with this approach are appropriately considered and addressed in the final determination. More specifically:

Netting off options when IRSR is net negative

Considering the different "netting off" options presented when the IRSR is net negative, Stanwell is comfortable with the approach to netting off in proportion to regional demand.

[1] ERC0386 IRSR arrangements for transmission loops - Draft determination p.9

Our concern (and where caution is required), is that this approach is inconsistent with the treatment of IRSR in net positive cases, as well as the treatment of IRSR in other interconnectors that are not part of the transmission loop.

This may potentially lead to operational complications in the future allocation of negative IRSR for interconnectors within the NEM.

4. Transitional arrangements for sold Settlement Residue Distribution Units

Settlement Residue Distribution (SRD) units are sold up to three years in advance of the quarter in which they pay out. Fifty per cent of the SRD units for the VIC-NSW / NSW-VIC and SA-VIC / VIC-SA directional interconnectors for Q4 2026 (when PEC is scheduled to operate) have already been sold.

To ensure that no participant who has purchased SRDs in good faith is disadvantaged under netting off arrangements, Stanwell suggests that all SRD units purchased prior to the commencement of the PEC be cancelled outright by the Australian Energy Market Operator (AEMO) and recycled in a future auction. These units should then be amortised through remaining auctions for relevant quarters, rather than having to be offered back by the participant.

In addition, clear timeframes and processes must be provided for transitional arrangements to address SRD units purchased prior to the commencement of PEC. Such arrangements must be communicated to holders of SRD units in a timely manner.

5. Scope of future reviews

Should the AEMC proceed with implementing the “netting off” approach proposed in the Directions Paper, then a review will be crucial to assess the impacts to the market as a result of PEC implementation.[2]

Any review by the AEMC should take place at least 12 months after the new allocation method has been fully incorporated into AEMO’s dispatch engine to ensure analysis and decision making is based on real data and evidence. [3]

Conclusion

Stanwell is disappointed by the shift from the Draft Determination to the Directions Paper, noting that the draft received strong support. Stanwell is concerned that the AEMC would present such a significant policy shift this late in the consultation process.

The revised policy direction, while protecting TNSPs from extreme negative IRSR, by “netting-off” will significantly reduce the value and effectiveness of SRAs. As SRA units’ value decreases (along with market liquidity for inter-regional hedging), retailers will then be forced to seek products outside of SRAs that will be more expensive and increase costs to customers.

We challenge the AEMC’s assumption that Market Participants are best placed to manage IRSR risks, given that TNSPs influence network capability, and in turn SRD value. Market Participants already manage inter-regional risk and should not be exposed to this additional risk.

Stanwell’s preference would be to proceed with the approach recommended in the Draft Determination. However, if the AEMC proceed with the recommendations made in the Directions Paper, consideration should be given to consistency of IRSR in net positive cases and the treatment of sold SRD units, to avoid unintended consequences.

[2] Microsoft Word - 20250130 AEMC Draft Inter Regional Settlement Residue arrangements for transmission loops Submission.DOCX p.2
[3] Microsoft Word - 20250130 AEMC Draft Inter Regional Settlement Residue arrangements for transmission loops Submission.DOCX p.2

Specifically, Stanwell would like clear guidance on cancellation and repayment processes for existing SRD units, which will be affected by "netting-off" at the commencement of PEC.

It is important that AEMO and Market Participants work together to find a solution that minimises unintended consequences.

Stanwell also emphasises the importance of timing a review of SRA arrangements to ensure it is informed by actual and current market conditions.

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission. Please contact Brad Supple via email at Bradley.supple@stanwell.com

Yours sincerely

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