

AEMC NATIONAL ELECTRICITY AMENDMENT (INTER-REGIONAL SETTLEMENTS RESIDUE ARRANGEMENTS FOR TRANSMISSION LOOPS) RULE 2025 - DIRECTIONS PAPER (ERC0386)

10 JULY 2025

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objectives (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under the National Electricity Amendment (Inter-Regional Settlements Residue (IRSR) Arrangements for Transmission Loops) Rule 2025 - Directions Paper.

The EUAA supports proposed rule changes where evidence points to an issue and the proposed rule change clearly leads to improved efficiency of markets and/or improved system security and where the costs and risks are appropriately allocated to those best able to manage them.

While the electrical conditions that will form the loop and the spring-washer effect from the loop crossing three markets are well known and have abundant evidence, unfortunately at this stage the modelling on the actual dispatch outcomes that will occur in the Project Energy Connect (PEC) loop are theoretical and based on assumptions fed into a model. For these reasons we support generalised approaches to the current proposed Rule Change and recommend a review after the PEC loop has been operating for at least a year to inform a more specific approach that will allocate costs and benefits appropriately.

NETTING OFF IRSR

We support the Commission's approach to netting the negative arm(s) from the positive arm(s) in a net positive loop and netting the positive arm(s) from the negative arm(s) in a net negative loop. We see this as a fair and equitable approach. We disagree with AEMO's submission that:

"...the rule change only needs to consider negative IRSR in a net positive case"

We consider that all net positive and all net negative cases of IRSR need to be considered for this rule change.

We agree with AEMC that the netting off of both net positive and net negative loops:

“...this approach best manages negative IRSR accruing on one arm of a loop in net positive cases at the lowest cost. Market participants are exposed to the risk of inter-regional price separation (which can result in losses or gains for them), have built expertise in managing these risks, and have access to (and expertise in designing and using) hedging instruments and other products to manage risks”

This approach aligns with EUAA’s principle where the costs and risks are appropriately allocated to those best able to manage them, which market participants clearly are and consumers are clearly not.

Those opposing this approach should consider that the negative arm(s) of a net positive loop and the positive arm(s) in a net negative loop are created because of the combined effects of the physics of electricity flow and the spring-washer effect of having three separate trading regions within the loop; i.e. the negative arm of a net positive loop is created because of the inter-regional trading that created the two positive IRSR arms and is actually an efficient dispatch outcome, while in a net-negative loop the loop will be clamped. To transfer the negative IRSR of a net positive loop to consumers via the Co-ordinating Network Service Provider (CNSP) is a direct transfer of wealth between consumers and the settlement residue distribution (SRD) unit holders, i.e. the SRD unit holders profiteering from consumers. That the SRD unit holders are often the same parties that have the ability to create these dispatch outcomes and who are also opposed to netting off the loop, adds insult to injury for all consumers.

Further, that some of the submissions from current SRD unit holders have threatened to collapse the proceeds from settlement residue auctions (SRA) and/or not hedge around the loop demonstrates the SRD unit holders’ contempt for their customers, who pay for their product.

These threats from current SRD unit holders should not be taken lightly by the Commission and EUAA recommends the development of strict penalties for this style of market collusion and/or deliberate attempts to undermine the SRD market.

NEGATIVE IRSR REGIONAL ALLOCATION

Similar to our commentary on the *Providing Flexibility in Allocation of Interconnector Costs Rule Change* consultation and our previous submission on the current topic, we are aware of issues related to fairness and equity for consumers in allocating costs for new interconnectors.

Utilising the “direction of flow” cost allocation methodology, where regions would pay the negative IRSR according to the gross amount of electricity they receive is inequitable, particularly if for example a negative IRSR is occurring from Vic to NSW but that electricity is actually dispatched to SA via NSW. In this example NSW consumers would be unfairly hit with the negative IRSR between Vic and NSW. Disbursing the negative IRSR equally amongst the three regions would have negative impacts on SA as when disbursed amongst the individual consumers, the consumers in SA will pay significantly more than consumers in either NSW or Vic due to large differences in population and loads. These are both inherently inequitable approaches that significantly disadvantages one region over the other.

We support the Commission's equitable "per capita" style allocation of negative residues to TNSP's according to the region's proportion of energy demand, as this will have a similar dollar impact to bills in all regions, however we consider that this should be allocated on the actual demand in the trading period that the negative IRSR accrued, rather than the Commission's approach of allocating according to the proportion of a region's rolling average demand in the previous 12 months.

SRA PROCEEDS AND UNSOLD SRD UNITS ALLOCATION

For consistency, and taking into account the uncertainty in the current PEC loop modelling, we support a per capita style distribution of SRA proceeds and unsold SRD units to the three CNSPs in the loop. This will balance the up-side benefits with the down-side risk until a review of the loop arrangements are reviewed at least 1 year after PEC is fully operational.

We recognise that AEMO's SRA system would need "*complex changes*", but consider that the benefits to treating SRA proceeds, unsold SRD units and negative residues in the same way far outweighs the costs to AEMO to make those "*complex changes*"

TRANSITIONAL ARRANGEMENTS

We understand that a number of Vic-NSW/NSW-Vic and Vic-SA/SA-Vic directional SRD units have already been sold as these hedging instruments are taken to SRA up to 3 years ahead.

We also understand that Clause 16 of the Auction Participant Agreement covers the circumstances under which auction participants may terminate their SRD agreement or can request a refund on already purchased SRD units. AEMO has indicated that these clauses could be triggered by the netting off approach.

We consider that there is a risk that SRD unit holders will request refunds hoping that those SRD units will be re-auctioned, allowing them to purchase the same SRD unit at a reduced price is a risk and would lead to reducing the SRA proceeds that are allocated to CNSPs and ultimately consumers.

To mitigate this risk, and not infringe on the rights of the SRD unit holders, we strongly recommend that any returned/refunded SRD units are only allocated to the CNSPs.

This will also mitigate the risks of CNSPs setting their TUOS incorrectly (and therefore transferring risk to consumers) due to a lack of visibility at the time of setting TUOS around SRD unit holders' decisions to request a refund to then rebid for that SRD unit at the SRA at a lower price. Should SRD holders refund and rebid at a lower price, the CNSP would require a higher TUOS to cover the lower SRA proceeds. If TUOS is set incorrectly, CNSPs would require a large variance in their next year's TUOS, which will negatively impact cashflow.

REVIEW OF SRA AND IRSR

While we largely support the Commission's current proposed Rule Change, to enable the PEC loop functionality at the commencement of looping, we consider that the generalised approaches to the current proposed Rule Change will need to be reviewed to ensure that the outcomes that are predicted are in fact met. This review should take

place after the PEC loop has been operating for at least a year (probably mid 2028) to inform a more specific approach that will allocate IRSR with a view of the value to consumers. We see this review would need to examine:

- The allocation of all net-negative IRSR
- The allocation of SRA proceeds and unsold SRA units

Given the SRD unit holders reaction to the current proposal, we would not recommend re-examining net positive IRSR or the netting off of IRSR before allocation to SRD unit holders or CNSPs.

Additionally, we propose a thorough review of SRA arrangements as soon as possible, including, but not limited to negative residue cycling and the discrepancy between the SRA receipts and the distribution of IRSR to SRD unit holders with the view of improving value to consumers. It is inconceivable that SRD unit holders receive a much higher value.

CLAMPING PROCEDURES

While not specifically part of this review, we understand that AEMO currently limits negative IRSR by imposing dispatch constraints in NEMDE when the negative IRSR is forecast to reach \$100,000 per “instance” of negative IRSR arising. In AEMO’s *Consultation on Automation of Negative Residue Management for the implementation of Transmission Loops*, we understand the following:

- When negative IRSR is forecast (using a pre dispatch (PD) estimate) to reach \$100,000 the interconnector is “clamped” using dispatch constraints
- When IRSR is forecast (using PD) to result in a positive IRSR, the interconnector is “unclamped” by removing the dispatch constraints
- If negative IRSR continues, the \$100,000 threshold is reset as it is a new “incidence”

We find that there are three problems with this current approach that will be exacerbated by the PEC loop.

1. By using PD and not NEMDE, the IRSR forecast uses data prior to rebids being received, does not contain the full complement of constraints and is subject to forecasting uncertainty
2. The IRSR returning to positive forecast is using clamped conditions to predict what will happen when the clamp is released, if the next trading interval has the same negative IRSR this leads to what AEMO refers to as “cycling”
3. Likewise, if the next trading interval after releasing the clamp has a negative IRSR, the threshold of \$100,000 recommences, even if the second “incidence” is part of the same “event” i.e. the network constraints and/or supply and demand conditions that lead to the negative IRSR are still occurring.

This approach to clamping and unclamping and recommencing the price threshold are inconsistent with the NEO.

We consider that these issues need urgent review, particularly as they relate to the PEC loop which AEMO estimates will significantly increase the occurrence of negative IRSR accumulation, and that current negative IRSR on radial interconnectors can be up to approximately \$40 million quarterly, despite clamping. While we agree that the automation of clamping to accommodate the PEC loop, netting off etc can be simply performed through

changes in procedures and guidelines by AEMO, we consider that the above issues need to be addressed through a rule change, to ensure that future procedures and guidelines meet the requirements of the NEO.

CONCLUDING REMARKS

The EUAA supports proposed rule changes where evidence points to an issue and the proposed rule change clearly leads to improved efficiency of markets and/or improved system security and where the costs and risks are appropriately allocated to those best able to manage them.

While the electrical conditions that will form the PEC loop and the spring-washer effect from the loop crossing three markets are well known and have abundant evidence, unfortunately at this stage the modelling on the actual dispatch outcomes that will occur in the PEC loop are theoretical and based on assumptions fed into a model. For these reasons we support generalised approaches to the current proposed Rule Change and recommend a review after the PEC loop has been operating for at least a year to inform a more specific approach that will allocate costs and benefits appropriately.

The EUAA welcomes further discussions around the issues raised in this submission.

Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.



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