

IRSR arrangements for transmission loops

We have made a final rule to net off IRSR in transmission loops

Our final rule is a more preferable rule that will net off inter-regional settlements residue (IRSR) in transmission loops using a 'net trade' approach. This is in response to a rule change request submitted by the Australian Energy Market Operator (AEMO) that sought to accommodate the creation of a loop in the National Electricity Market (NEM) once Project EnergyConnect Stage 2 (PEC) is operational.

Generally speaking, under a netting off approach, positive and negative IRSR assigned to each 'arm' of the loop in a dispatch interval is pooled together. If the resulting (netted) amount of IRSR is positive, it is distributed to settlements residue distribution (SRD) unit holders, and if it is negative, it is recovered from Co-ordinating Network Service Providers (CNSPs).

We considered various options for managing IRSR in transmission loops throughout this rule change process, and determined that the netting approach in the final rule promotes efficient risk management and thus keeps costs as low as possible for consumers. We determined that our final rule is likely to better contribute to the achievement of the National Electricity Objective (NEO) than the proposal in the rule change request.

We consider that netting off will keep costs as low as possible for consumers

Power flows in a transmission loop behave in a fundamentally different way to power flows on existing 'radial' interconnectors (that is, the current regulated interconnectors that link two regions without forming part of an inter-regional transmission loop), due to the physics of electrical circuits. Power flows impact the financial flows around the loop via their impact on the IRSR arising around the loop. Large and unpredictable negative (and positive) IRSR will be an unavoidable outcome of the transmission loop.

If we applied the status quo arrangements for allocating IRSR on radial interconnectors to a loop, consumers would be exposed to risks from large, unpredictable negative IRSR. We consider that netting off best manages the risks to consumers and keeps costs as low as possible for consumers by allocating IRSR efficiently.

This is because netting allocates all IRSR to market participants in net positive cases, and so aligns the party managing price separation risks with the party managing the resulting IRSR. Price separation between regions results in IRSR arising, and market participants already manage price separation risks between regions and have tools and expertise available to do this. In net negative cases, net negative IRSR is recovered from consumers via CNSPs, so SRD units cannot pay out a negative amount to unit holders.

How netting off works in the final rule

Under the approach in the final rule, the allocation of IRSR in a transmission loop depends on whether the 'net loop IRSR' (that is, the pooled IRSR amount around the loop for a trading interval) is positive or negative.

- The net loop IRSR, when it is positive, will be distributed to SRD unit holders based on the net energy transfer ('net trade') between the connected regions, instead of the physical flows on the interconnectors.
- The net loop IRSR, when it is negative, will be recovered from consumers via CNSPs in each connected region in proportion to regional demand.
- Settlements residue auction (SRA) proceeds and positive IRSR attributed to any unsold units ('unsold IRSR') will be allocated to the importing region's CNSP.

The final rule does not change the way in which IRSR is distributed for radial interconnectors, for example, the Queensland-NSW interconnector (QNI).

Netting off will commence between 1 October 2026 and 2 November 2026

Our final rule defines key implementation dates for the transition to loop operation:

- the loop will be represented in AEMO's dispatch systems on the 'loop operations start date'. This needs to be on or after 1 October 2026 and by no later than 2 November 2026. Loop flows will impact market outcomes from this time.
- AEMO's settlement system updates to implement the final rule will go-live on the 'loop settlements start date'. This needs to be on or after the 'loop operations start date', but no later than 2 November 2026.

The current arrangements for the allocation and distribution of IRSR for radial interconnectors will apply to the loop for any period between the 'loop operations start date' and the 'loop settlements start date'.

The final rule also includes:

- a reasonable endeavours requirement for AEMO to auction new SRD units for PEC ahead of loop operation, to ensure that market participants have access to these units to purchase for inter-regional hedging.
- a requirement for AEMO to publish information relevant to the loop transition, to help inform hedging and forecasting decisions by providing the market with more clarity on loop implementation and arrangements as soon as practicable.

We took diverse stakeholder views into account in developing this final rule

In making our final rule decision, we had to balance risks and trade-offs. There has never been a transmission loop in the NEM, and we cannot be sure of IRSR outcomes around the loop until it is in operation, as we do not have operational data or experience to work with. We consulted on a range of options and used the data and analysis available, alongside economic theory, to make our decision.

Our consultation process included releasing a directions paper between the draft determination and final determination, to consult on a revised policy direction - to net off IRSR in transmission loops. In submissions to the directions paper, retailers, generators and associated industry bodies (referred to collectively as 'market participants') strongly opposed netting off, as they considered it would make it more difficult for them to manage the risks of price separation using SRD units, which would increase costs to consumers. CNSPs and consumer groups supported netting off.

We thoroughly considered options that do not involve netting. However, we do not consider that these options would adequately manage risks and costs for consumers compared with the final rule. We also consider that the final rule improves the netting design proposed in our directions paper.

Nonetheless, we understand that the loop may require market participants to change the way that they manage inter-regional price risk, and that it will take time and resources to understand the impact of loop operation on their hedging strategies. Our final rule requires that enough information is made available to market participants so they can make informed hedging decisions, and we encourage industry bodies to support market participant learning.

We intend to conduct a future review of IRSR and SRA arrangements in the NEM

Our future review would provide the opportunity to consider the SRA and IRSR arrangements holistically across both radial and looped interconnectors, to ensure they are fit-for-purpose for the future NEM. We would also consider any issues raised by the NEM Expert Panel Review, noting that the NEM Expert Panel Draft Report recently made a draft recommendation that the AEMC should review interconnector hedging arrangements.

As we cannot be sure of IRSR outcomes around the loop until it is in operation, we consider a review would be most valuable after at least a year of loop operation, taking into account broader market outcomes.

For information contact:

Media enquiries: media@aemc.gov.au

25 September 2025