



## Management of negative inter-regional settlements residues

### Publication of the final report

The AEMC published its final report on the Australian Energy Market Operator's (AEMO) management of negative inter-regional settlements residues on 20 February 2014. The AEMC considered that current arrangements are broadly appropriate. The final report proposed that AEMO make minor changes to how it manages these residues. The final report's recommendations are consistent with the draft report's findings.

### Final report recommendations

After reviewing AEMO's management of negative inter-regional settlements residues (IRSRs), the AEMC's recommendations are that:

- the current threshold of \$100,000 for intervention should be retained as the evidence does not support increasing or decreasing it;
- there is benefit in AEMO investigating and consulting on alternatives to current arrangements with the aim of reducing the incidence of the repeated application and release of the clamp within a trading day;
- AEMO should communicate to stakeholders its basis for how increments are set when a clamp is applied or released;
- where possible, AEMO should publish its estimate of the negative IRSRs within a current trading interval in real-time; and
- AEMO's use of the metered interconnector flow from the beginning of the previous dispatch interval to estimate the most recent value of the negative IRSRs within a current trading interval is appropriate.

The AEMC has not proposed to change the National Electricity Rules (NER).

### Background on the review

#### Why are we conducting this review?

The AEMC is required to conduct a review of AEMO's management of negative IRSRs under the NER. This NER requirement is based on a recommendation from the AEMC's 2008 Congestion Management Review.

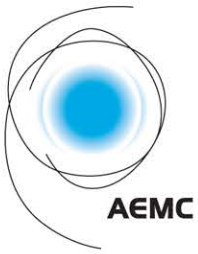
#### What is a negative inter-regional settlements residue (IRSR)?

An IRSR, which may be a positive or negative value, is the product of the difference in the regional reference price between two regions in the National Electricity Market (NEM) and the quantity of electricity flowing over an interconnector between those two regions.

A negative IRSR arises where there are counter-price flows; that is, electricity flows from a high-priced region to a low-priced region. There are a variety of circumstances (such as the presence of network congestion) that give rise to counter-price flows, and hence negative IRSRs.

#### How negative IRSRs are currently managed in the NEM?

If the value of these negative IRSRs is or is expected to reach \$100,000, then AEMO 'clamps' or reduces the counter-price flow of electricity over the affected direction of an interconnector.



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### What is the scope of this review?

The scope of this review covered the:

- efficiency of AEMO's practice of managing negative IRSRs, including the 'clamping' of negative IRSRs when their value reaches \$100,000; and
- appropriateness of the \$100,000 intervention threshold.

The AEMC has not reviewed negative IRSRs generally; rather, it specifically reviewed AEMO's management of negative IRSRs.

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