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Australian Energy Market Commission
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Lodged electronically: www.aemc.gov.au (ERC0386)

Dear Commissioners

Inter-regional settlements residue arrangements for transmission loops — Draft Rule Determination — 12 December 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We support the Commission's draft determination and part of its rationale for reallocating negative residues to NEM regions in proportion to customer demand. Namely, this may mitigate the risk of very large residues accruing if they were instead allocated solely to the importing region. We note the Commission has not undertaken its own modelling to assess this risk but has relied on prior work by ACIL Allen, commissioned by AEMO.

In considering this issue the Commission has been drawn into exploring customer impacts in how settlement residues are treated generally, and whether current outcomes are in their long-term interest. The Commission appears to understand the role settlements residue distribution (SRD) units play in managing price risk and as one of many hedging tools in the market. Although it has not undertaken detailed analysis, the Commission appears to have concluded that the current arrangements are flawed and should be subject to a holistic review over 2025. Of particular interest, the Commission's quantitative assessment of SRD proceeds is that consumers have made a 'loss' of $1.1 billion over 20 years, whereas it expects they should be making a positive return.[1]

In considering the need for and timing of a holistic review, the Commission should:

- further develop its understanding of the nature of SRD units and their value to market participants, including how these form part of their broader management of retail, contract and generation portfolios. As we have suggested to Commission

[1] AEMC, *Inter-regional settlements residue arrangements for transmission loops*, Draft rule determination, 12 December 2024, p. 41.

staff, this is a complex area where direct discussions with specialist traders would be beneficial.

- develop a proper prima facie case on the extent of any problem with current arrangements and how changes to this would impact end use prices. The $1 billion 'loss' calculated by the Commission equates to $55 million annually, and compares to NEM turnover of $17.7 billion. The Commission has not identified why this outcome is at odds with its expectations, nor what preferred alternative outcome it expects following a review, however the gains from making any changes already appear to be minimal in terms of end user bill impacts.

- reflect on its investigations to date and the level of complexity involved. While this should not discourage the Commission from conducting further research, stakeholders and AEMO have already invested considerable resources in examining residue allocation issues for Project EnergyConnect. Conducting a full review of residue treatment would involve stakeholders spending additional effort while widening the scope for disagreement, ultimately between market experts and specialist consultants on arcane issues.

- reflect on the nearer term and material customer impacts arising with Project EnergyConnect, and anticipate what this means for the Commission's work priorities and general role in market governance.

On this last point, a recent announcement suggests the NSW portion of EnergyConnect will (so far) cost double the amount approved by the AER.[2] This has a direct bearing on the Commission's role in governing transmission investment frameworks and managing expectations of price trends throughout the transition. In rough terms, a doubling of project cost equates to a $44 total bill impact for NSW households.[3] As we raised during the Commission's transmission framework review[4], there is a gap in the rules regarding the actual delivery of the alleged customer benefits of these projects. This allows proponents to suggest (but not held accountable for) bill savings, in this case at least $100 per year.[5] A cost increase of $1.8 billion for Project EnergyConnect would mean it no long delivers net benefits to customers, which were estimated at $201 million in its final (updated) Regulatory Investment Test. This casts a shadow over other similar transmission projects which were also approved in spite of having relatively small cost/benefit ratios. These projects are already highly disputed by a range of stakeholders, and ongoing community opposition is a key threat to an orderly transition.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Leader

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[2] Costs climb for NSW-SA grid interconnector – pv magazine Australia

[3] AER approves costs for Project EnergyConnect | Australian Energy Regulator (AER)

[4] https://www.energyaustralia.com.au/sites/default/files/2023-04/EnergyAustralia_AEMC%20Transmission%20review%20-%20stage%20three%20paper_3%20Nov%202022.pdf

[5] Electricity interconnector on track to deliver savings