10 July 2025

Ms Anna Collyer

Chair

Australian Energy Market Commission

GPO Box 2603

Sydney NSW 2001

Electronic Lodgement: ERC0386

Dear Anna,

Directions paper – IRSR arrangements for transmission loops

Energy Networks Australia (ENA) welcomes the opportunity to make this submission in response to the Australian Energy Market Commission's (AEMC) Directions Paper Inter-regional settlements residue (IRSR) arrangements for transmission loops.

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA welcomes the Directions paper as an improvement on the draft determination in that it now seeks to reduce the quantum of negative residues by the netting off approach and continues to share the negative residues across a broader consumer base. TNSPs' concerns with volatility and forecastability remain and we would still welcome a settlements review to consider broader arrangements including the establishment of a centralised fund to manage the cashflow volatility within a year which could enable known numbers to be adjusted in transmission charges.

TNSPs are increasingly exposed to large cashflow impacts linked to the wholesale market. These costs, and their volatility, are ultimately borne by consumers. ENA notes once the PEC transmission loop is established, this may result in a step-change increase in transmission charges with a part year impact commencing in 26/27 transmission charges.

In summary:

- ENA supports the AEMCs preferred option that the negative IRSR would be netted off around the loop in proportion to the positive IRSR.
- ENA supports the proposal to allocate the SRA proceeds and unsold SRA units based on the current approach to the importing region as opposed to an allocation based on the proportional demand across the regions which would be more complex.
- ENA welcomes further clarity on how the PEC operational date might be forecast to provide clarity and to best mitigate TNSP cashflow risks.

- ENA/CNSPs welcome clarity of the timing of the rescinding of the SRD units already sold in the AEMC Final Determination as it will have implications in March 2026 for the setting of transmission charges in the 2026/27 financial year.
- ENA supports CNSPs forecasting and implementing adjustments in transmission charges as this retains the current arrangements and helps to provide a stable transmission price path for consumers.
- ENA acknowledges the need to streamline AEMO documentation processes however ENA also considers that updated auction rules should be shared with the SRC ahead of the changes and AEMO should have regard to any feedback received.
- ENA suggests a simpler and known approach such as regional demand share based on consumption in a region in the prior financial year as a proportion of the total consumption across the regions in the prior financial year. AEMO already utilizes this approach for NTP fees.
- ENA agrees that this current process has been limited in nature to implementation of the PEC loop and has not sought to consider issues relating to other IRSR arrangements for radial I/Cs and loops. ENA welcomes a review commencing in the next 12 months covering both the inter and intra-regional settlement arrangements with a view to protecting CNSPs, and consumers, from inter regional wholesale market volatility.

Further details are provided below.

AEMC proposed netting approach is supported

The AEMC has considered 5 alternatives before landing on the preferred netting approach in this Directions paper.

- *Establish a centralised fund* - AEMO or another body could manage the cashflow risks arising from the mismatch in timing and quantity of funds received and the net negative IRSR. The cost of debt for a pooled fund may be more cost effective than an expandable short notice debt facility with each CNSP. As we have previously noted we consider there is already a precedent in the UK. ENA notes that under the NSW Roadmap, a funding vehicle has been established and collects costs and recovers revenue and can potentially smooth the costs over several years to limit volatility to consumers. This option is worthy of consideration in the AEMCs settlement review. ENA also considers setting an upper limit on the net negative IRSR over a month or year to limit the impact is also worth considering in the future review,
- *Recovering the negative IRSR from market customers* – it is appealing to keep the wholesale market costs in the market. ENA notes the downside for small retailers who may experience cashflow concerns from this approach and commercial/industrial customers may be charged on a direct pass-through basis as market charges. ENA consider that these are worthy of testing in the broader review, noting that market participants will temper these costs with the hedging instruments and the benefits they pass to consumers also.
- *Scaling the amount of SRD units sold* would be appealing where the overall risk to consumers was reduced. ENA notes the complexity of determining the right portions of positive IRSR allocations to CNSPs and SRD unit holders

- *Clamping in net positive cases* - ENA agrees that adopting this approach would undermine efficient dispatch.

- *Micro-slice implementation of PEC* – ENA notes that AEMO has considered this option and considers that dispatch would be less efficient with underutilisation of the network.

- *Retain the status quo* – would increase the exposure for consumers of negative IRSR and cashflow risks for CNSPs.

In the Directions paper the AEMC have proposed a 'netting off' approach for allocating positive and negative IRSR in transmission loops. The AEMC considers this would best promote the long term interests of consumers compared to the other options. Under a netting off approach, negative IRSR is deducted from positive IRSR before positive IRSR is paid out to settlements residue distribution (SRD) unit holders.

- when loop IRSR is net positive, negative IRSR in a dispatch interval would be deducted from the positive IRSR that arises on the other arms, in proportion to the size of the positive IRSR on each arm. This netted IRSR would then be allocated to SRD unit holders.

- when loop IRSR is net negative, any positive IRSR on any arm would be used to reduce negative IRSR in that dispatch interval, and the remaining negative IRSR would be allocated to CNSPs who would in turn recover it from consumers via TUOS.

AEMO will also clamp the loop in net negative cases to mitigate the risk of extreme net negatives.

AEMC notes this mitigates some of the risks by sharing across a broader consumer group but does not eliminate the potential for large magnitudes funded by TNSPs and ultimately consumers.

ENA supports the AEMCs proposed approach given it is the most practical to implement and seeks to reduce the risks to CNSPs and consumers. The SRD units will still be maintained as an inter-regional hedging tool, and the approach proposed better manages the risks to consumers and the practicality of implementation.

Of the three or four options to net off in a net positive case, ENA supports the AEMCs preferred option that the negative IRSR would be netted off around the loop in proportion to the positive IRSR.

SRA proceeds cash flows should be allocated to the CNSPs

The Directions paper proposes to allocate cash flows relating to SRA proceeds and any unsold SRD units and net negative IRSR amongst the CNSPs in the loop in the following manner,

- Allocated SRA proceeds and any unsold SRD units to CNSPs for the importing region and

- Allocating net negative IRSR to CNSPs in each region in proportion to regional demand.

ENA supports the proposal to allocate the SRA proceeds and unsold/unoffered SRA units based on the current approach to that region as opposed to an allocation based on the proportional demand across the regions which would be more complex.

PEC Operational Date

The PEC operational date definition results in the change over from a micro slice to a netting approach and will have commercial outcomes for SRA unit holders.

Transmission projects are large complex projects and by their nature the operational date is difficult to precisely assign. Residues can accrue from the time PEC2 is energised and inter-network testing commences, however it takes time for the transmission line to be commissioned.

A number of SRAs will have occurred in advance of an operational date which could change and will have commercial implications for SRA units and the inputs to the 2026/27 transmission charges. ENA would welcome further clarity on how the date for the creation of the loop in the SRA auction process might be determined, and forecast E.g. would it be the date of energisation or the date of successful hold point 2 testing etc.

Supportive of netting off calculations applying to previously sold SRD units

The AEMC states that 50% of the SRD units for the VIC-NSW/NSW-VIC and SA VIC/ VIC-SA directional interconnectors for Q4 2026 (when PEC is expected to become operational) have been sold at the time of writing.

AEMO acknowledges that the current Auction Participation Agreements may allow a party to terminate SRD units under a netting approach. Despite this, ENA is supportive of the approach of netting off calculations applying to previously sold SRD units is pragmatic. AEMO is required under the Rules to distribute unsold positive IRSR to the relevant CNSP of the importing region. AEMO could also choose to offer cancelled SRD units in a subsequent auction.

The impacted CNSPs welcome clarity of the timing of the rescinding in the AEMC Final Determination as it will have implications for transmission charges in March 2026.

Supportive of forecasting implications of the PEC loop in transmission charges

The AEMC considers that there would be enough time for CNSPs to forecast and implement any transmission charge adjustments for the first regulatory year after the final rule commences in September 2025.

CNSPs are required under the NER to determine and publish TUoS prices by 15 March of each year in relation to the following financial year. This means that, with PEC becoming operational in Q4 2026, CNSPs will be required to forecast the impact of the loop on SRA Proceeds for approximately two quarters of FY26.

ENA notes that the proposed rule change is expected to be finalised by 25 September 2025, it will not be possible for the results to be processed and incorporated into the September 2025 Settlements Residue Auction.

With the publication date for transmission pricing of 15 March, this means that the only auction from which CNSPs will be able to infer any data regarding the impact of PEC on the SRA Proceeds will be the December 2025 auction.

ENA support CNSPs forecasting and implementing adjustments in transmission charges as this retains the current arrangements. These costs are forecast and CNSPs maintain robust under and over recovery accounts to ensure that costs are trued up in the following year so consumers pay no more than is necessary.

As the AEMC has noted, the impacts of a new transmission loop are hard to predict. Faced with the lack of data on which to forecast accurately, CNSPs will naturally forecast conservatively and return any upside to consumers in FY28.

Given the short window between the finalisation of the rule change and the requirements of transmission pricing, there is benefit in considering whether there should be a time limitation placed on when SRD units sold can be rescinded. Equally, adhering to the normal process for holding auctions over the three years preceding the relevant quarter, ENA would welcome clarity on how SRD units unsold or unoffered will be incorporated (if at all) into the remaining auctions before PEC is completed.

AEMO's streamlined arrangements

The Directions paper notes a number of AEMO documents that will need to be reviewed and updated and provides a transitional rule to allow AEMO to use an expedited rules consultation process. ENA is concerned that as drafted AEMO may only need to finalise these documents 4 weeks prior to the PEC operational date, which leaves arrangements unclear for too long. It is preferable that the AEMC Final Determination clarify the auction rules in a number of respects:

- The timing of when SRAs will occur for units on the new NSW-SA interconnector;
- The last date for rescinding any SRD units that apply post the PEC operational date and timing of reoffering those units into a SRA;
- Clarify the implications for the 15 December 2026 auction.

ENA suggests that the transitional arrangements provide for clarity on the updated auction rules by the end of February 2026.

The draft rules also provide an ongoing provision which allows AEMO to amend auction rules without the SRC approval, and with rules consultation, where the amendments are needed to comply with revised Rules. ENA acknowledges the need to streamline processes however considers that updated auctions rules should be shared with the SRC ahead of the changes and AEMO should have regard to any feedback received.

Support more clarity on regional demand share

The CNSP in each region would be allocated the net negative IRSR in a trading interval based on its regional share. Rather than the calculations being based on the energy consumed in the current billing period and the previous 51 billing periods (ie a weekly updated rolling 12 month regional allocation), a more preferred process could use data like the NTP fee. The rolling 12 months has a false sense of preciseness.

The NTP fee allocations are based on consumption in a region in the prior financial year as a proportion of the total consumption across the relevant regions in that financial year.[1] AEMO determines this number in January/February each year when they publish the percentage allocations and the NTP fees for each CNSP. The energy consumption used in the NTP fee

[1] https://aemo.com.au/-/media/files/about_aemo/energy_market_budget_and_fees/2025/fy26-ntp-fees.pdf?la=en

allocations has been through financial settlements and both settlements revisions and is likely to be better quality. This has the added advantage that the percentage allocation to the region is known for the upcoming financial year and can be used as an input for allocations in the loop processes and in forecasts that are input to the CNSPs annual transmission charges published in mid March.

Need for a broader review of settlements arrangements is supported

ENA agrees that this current process has been limited in nature to implementation of the PEC loop and has not sought to consider issues relating to other IRSR arrangements for radial I/Cs and loops.

While ENA is supportive of the proposed netting arrangements and sharing the risk across regions, there is still potential for large and unpredictable costs for CNSPs and consumers, to fund. Accordingly, these costs should be managed in wholesale market arrangements or via an AEMO fund in the first instance to reduce short-term debt costs across CNSPs, and to enable stability and predictability of charges to consumers.

A review should cover both the inter and intra-regional settlement arrangements. There are a number of new I/Cs highlighted in the planning horizon, a review could ensure consumers interests are considered more broadly in the transition. A timely review would also allow increased clarity for stakeholders going into the first quarterly SRAs for new transmission I/Cs well in advance.

ENA suggests a review commence in the next 12 months following the NEM Review recommendations and states uptake (or not) with a view to rules and implementation being completed before new I/Cs are operational and before any new entrants commit to entering the market in the revised CIS tenders (ESEM – electricity services entry mechanism).

AEMC notes the difficulty in forecasting the IRSR impacts for the PEC loop. ENA suggest there be a review on the PEC implementation in several years' time to assess the outcomes for consumers and CNSPs.

ENA and impacted CNSPs have appreciated the collaboration and detailed engagement with the AEMC. We look forward to continued engagement with the AEMC as it finalises the rules for transmission loop settlements. In the meantime, if you would like to discuss this submission, please contact Verity Watson (vwatson@energynetworks.com.au) in the first instance.

Yours sincerely,

Emma Shanks
Acting Chief Executive
Energy Networks Australia