19 January 2023

Stakeholder Relations

Australian Energy Market Operator

By email: StakeholderRelations@aemo.com.au

Re: Project EnergyConnect Implementation Paper

As the primary TNSP for the South Australian region and the proponent for the South Australian section of Project EnergyConnect (PEC) ElectraNet welcomes the opportunity to provide this submission in response to the Project EnergyConnect Implementation Paper.

We appreciate the efforts of AEMO and the Settlements Residue Committee in presenting credible options to address the management of loop flows potentially arising from the interconnection of the South Australian, New South Wales and Victorian regions.

Of particular interest to TNSPs is the management of negative inter-regional settlements residues (NSR) which are currently recovered from transmission customers in arrears via transmission prices. Historically NSR have been relatively small and rare due to the clamping arrangements implemented by AEMO in dispatch. However, with loop flows comes the very real prospect of either frequent clamping of interconnectors or the escalation of NSR beyond the ability of TNSPs to fund them.

Response to consultation questions

While ElectraNet is broadly supportive of the assessment principles an additional principle should be considered which is the ability of the party receiving NSR to manage the risk.

Which option best meets the guiding principles?

ElectraNet believes that the current process of clamping is not a sustainable method for managing NSR arising from loop flows. To maintain this process would have the potential to substantially reduce the benefits arising from interconnection between the three regions.

Option 1(a), where all NSRs are allocated to TNSPs, would not be sustainable as the large and uncertain exposure to market outcomes is likely to have significant impact on the financeability of

ElectraNet.com.au
A 52–55 East Terrace, Adelaide
P PO Box 7096, Hutt Street Post Office, Adelaide, South Australia, 5000
T +61 8 8404 7966 or 1800 243 853 (Toll Free) F +61 8 8404 7956
E enquiry@electranet.com.au

TNSPs who are not well placed to manage the risks. They are not eligible to participate in the market and the under-recovery mechanism can take up to two years to true up against allowed revenues. The resulting volatility and revenue impact also directly impacts on transmission customers.

Option 1(b), where all NSRs are allocated to the Trader, (holders of SRA units) is strongly preferred noting that Traders would be able to assemble portfolios of SRA units across various links to manage the risks which TNSPs are not eligible to do.

Option 1(c), where NSR is split between TNSPs and Traders, would involve an arbitrary split which would have similar issues for TNSP financeability as option 1(a).

As noted in the paper option 2, the bespoke bundling of products across multiple interconnectors, would be achievable by Traders under option 1(b). However, there may be reasons to also provide the bundled products up front if this would ease entry to the SRA market by less sophisticated participants.

Further analysis of option 3, where NSR is reallocated across multiple flow paths, is warranted. On face value it would appear to reduce the quantum of NSR accruing due to loop flows. However, the overarching risk to TNSPs from NSR remains. The quantification of these residual risks would greatly assist the TNSPs in considering this option. The role of clamping in this option is also unclear.

Option 4, firm transmission rights, is best considered in the work being conducted by the Energy Security Board on congestion management mechanisms.

Are there further material advantages or disadvantages that have not been listed for any of the options outlined in this section?

Allocating NSR to Traders combined with Trader bundling would see trading risks allocated to those best positioned to manage them.

If NSR were to accrue to a Trader, what would be the effect of introducing prudential arrangements for Traders and how would this impact on participation in SRA?

Without addressing the issue from a Trader's perspective, it should be noted that TNSPs are not currently in the prudential framework. The risks arising from increased exposure of TNSPs to NSR would likely see the need for this to change, with significant financeability issues.

Do stakeholders have any other suggestions or alternative approaches to the management of NSR that will occur with the implementation of PEC?

Consideration should be given to spreading NSR risk not just across links in the loop but also across a billing period as was the case before the risks were allocated to TNSPs.

Should any change to NSR management be applied to loop flows only, or more broadly to all interconnector flows? While it may be possible to designate and define 'loop flow' conditions, there is a question of whether the broader principles adopted are appropriate for all flows.

Ideally the changes would be consistently applied across all interconnectors.

What factors should be considered with the timing and approach of the auction of PEC SRA units?

The release of capacity on PEC will be staged and subject to the conduct of inter-network tests which will support AEMO's release of capacity to the market. This would support a cautious approach to releasing units for auction ahead of commissioning.

Further, in the event units are released as capacity is released, the allocation of both negative and positive residues associated with unsold units would need to be considered.

How should changes to NSR management be considered and implemented in respect of the ESB's current reform activity for congestion management?

As noted above it is essential that the changes being pursued by the ESB are integrated with the changes associated with PEC. However, the changes necessary for PEC should not be delayed in anticipation of the ESB's broader work.

Should you have questions in relation to this submission please contact ElectraNet's Pricing Manager, Bill Jackson in the first instance.

Yours sincerely

Jeremy Tustin

Manager Regulation