

1 December 2023

Australian Energy Market Operator

Lodged via email: NEMReform@aemo.com.au

Project Energy Connect Implementation – Directions Paper

Delta Electricity (Delta) welcomes the opportunity to provide feedback on the Australian Energy Market Operator's (AEMO) Project Energy Connect Implementation – Directions Paper.

The implementation of Project Energy Connect (PEC) requires AEMO to consider how loop flow negative inter-regional settlement residue (IRSR) is managed and allocated. AEMO's Directions Paper prefers an approach where Negative Residue Management (NRM) should only be applied where aggregate settlement around the loop is in deficit i.e. net negative settlement residue. Delta notes this proposed approach makes it unclear whether settlement residue auctions (SRA) will remain fit for purpose for the original intent of supporting inter-regional hedging if it is deducted from unit holders.

Delta's strong view, which it understands to be AEMO's preliminary position, is that reallocated negative IRSR should not be deducted from unit holders via a reduction in positive IRSR as this approach would limit the impact on SRA processes and units. If AEMO were to proceed with deducting the negative residues from unit holders, then AEMO should then consider how this would impact on traders hedging inter-regional price risk across the three interconnector limbs.

The negative residue reallocation will devalue IRSR units if it is to be deducted from SRA unit holders. If the negative residue is deducted from SRA unit holders, the long-term impact would substantially reduce the value of SRA units as a hedging tool, and potentially substantially lessen competition.

Reallocation of negative IRSR should be charged directly to consumers in the importing region and not deducted from unit holders by reducing the payout of units purchased in the SRA. As the end customer will ultimately pay for any option, the cleanest solution is for the TNSP to pass the cost to the customer via transmission charges. This upholds the integrity of the SRA units as an interregional hedge and maintain retail and wholesale competition.

Treatment of impacted SRA units

SRA units should continue to be auctioned on impacted directional interconnectors in tranches as per the current procedure. Already auctioned units should not be modified or re-auctioned regardless of changes due the implementation of PEC, as it could set a precedent that undermines future auction confidence.



If AEMO decides to reallocate negative IRSR to SRA unit holders, then AEMO should allow a reasonable amount of time for unit holders to consider whether to cancel impacted IRSR units, adjust hedging positions and consider the viability of hedging, trading and retailing in other regions. Delta notes that AEMO's directions paper acknowledges the auction participation agreement allows for this.

To discuss further please contact me at joel.aulbury@de.com.au.

Yours sincerely,

Joel Aulbury

Regulation and Strategy Manager