

28 November 2023

Australian Energy Market Operator (AEMO)

Submitted via email: NEMReform@aemo.com.au

Dear AEMO,

Project Energy Connect Market Integration Paper

Hydro Tasmania welcomes the opportunity to engage with the Australian Energy Market Operator (AEMO) on the *Project Energy Connect Market Integration Paper*.

Settlement residue auctions (SRAs) are an important interregional hedging tool for participants in the NEM. Hydro Tasmania agrees with AEMO's view that the maintenance of SRA integrity and firmness must be preserved wherever possible throughout PEC implementation.

Hydro Tasmania supports AEMOs preferred option of negative IRSRs being passed through to the customers of importing regions, rather than deducted from SRA unit holders. Deducting from SRA unit holders will increase uncertainty around SRA payout, adding further speculation to the market, which will reduce efficacy and use of the SRA market.

Furthermore, previous regulatory decisions have shifted the allocation of negative IRSRs to the TNSP of the importing region. Deducting negative IRSRs from SRA unit holders would be a departure from previous decisions and from treatment of IRSRs elsewhere in the NEM. Hydro Tasmania supports following this existing precedent in the implementation of PEC.

Please see Hydro Tasmania's answers to the consultation questions in Appendix A. If you have any queries on this submission or require further information, please contact Dani Williams at danielle.williams@hydro.com.au.

Yours sincerely,



Alex Beckitt
Head of Strategic Policy

Appendix A: PEC Market Integration Directions Paper - List of consultation questions

No.	Category	Questions for consultation	Stakeholder response
1	Current process	AEMO considers the current process is unsuitable and will restrict efficient dispatch. Are there any additional advantages or disadvantages with the current process identified by stakeholders that could apply in the context of transmission loop flows?	Hydro Tasmania agrees with AEMO in their view that the current process of managing IRSRs is unsuitable for the efficient implementation of PEC.
2	Approach	AEMO considers regulatory precedent requires negative residue management be retained for periods where IRSR is in deficit around the loop, that this be automated as far as possible, and limited to \$100,000 and any accruing negative residues be allocated to the importing TNSP. For these instances, there would not be any reallocation required. Are there any other approaches to negative residue management AEMO should consider?	No comment
3	Approach	In considering the reallocation approach, AEMO considers a sensible method is to allocate negative residues is in proportion the with positive residues on the other interconnectors in the loop. AEMO considers it is preferable that an interconnection that is negative not receive a	No comment

No.	Category	Questions for consultation	Stakeholder response
		proportion of the positive residues. Do stakeholders agree?	
4	Approach	Do stakeholders consider these approaches to be reasonably robust, irrespective of whether negative IRSR is deducted from the payouts to SRA unit holders?	No comment
5	Approach	Do stakeholders have a different method for the reallocation of negative IRSR that should be considered?	No comment
6	Approach	Which option best meets the guiding principles identified in Appendix A.3? Are the other options that also meet the guiding principles that should be considered?	No comment
7	Approach	Should AEMO propose a method that deducts negative IRSR from the payout to SRA unit holders; or reallocates negative IRSR, in proportion to positive IRSR, directly to consumers in the importing regions?	<p>Hydro Tasmania believes option 2 (reallocating negative IRSRs to consumers in importing regions) is more appropriate.</p> <p>Previous regulatory decisions have shifted negative IRSR cost to the TNSP of the importing region and Hydro Tasmania supports following this precedent in this decision.</p> <p>Hydro Tasmania is not supportive of option 1 (deducting negative IRSR from payout to SRA unit holders) as we believe this would undermine the efficacy of the SRA market. SRAs are already a</p>

No.	Category	Questions for consultation	Stakeholder response
			speculative product and introducing further uncertainty to this market is likely to undermine the efficiency and use of SRAs as an interregional hedging tool.
8	Approach	What, if any, other factors need to be included when considering the payment for negative IRSR?	No comment
9	Implementation	<p>The reallocation approach would require updates to AEMO's settlement systems and procedures. What does AEMO need to consider in terms of:</p> <ul style="list-style-type: none"> • Participant or TNSP market and settlement systems? • Timing of implementation? 	No comment