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EnergyAustralia

LIGHT THE WAY

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Project Energy Connect Implementation Paper – 14 November 2022

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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 4,500MW of generation capacity.

We appreciate AEMO exploring the challenges arising from the loop flow to be created by Project Energy Connect (PEC). AEMO's consultation paper is useful in outlining the nature of these challenges and listing potential solutions at a high level, including the worked examples in appendix A.2.

As AEMO appreciates, issues arising around the creation of negative settlement residues are complex and in our view require further elaboration. In particular, stakeholders would benefit from AEMO releasing a model of the network including a realistic representation of potential or likely constraints, combined with actual historic prices and network flows that would have given rise to negative residues. This would illustrate the scale of the problem, which appears to be assumed knowledge in AEMO's consultation paper. The model could then be used to overlay different solutions in terms of the reallocation of settlement residues, particularly where some options presume that there would always be positive residues across the affected interconnectors when taken in aggregate. Different solutions may have associated consequences on generator behaviour including race-to-the-floor bidding. The interaction with settlement residue auctions (SRA) also needs to be explained as AEMO suggests at least one option would likely limit the number of SRA units sold.

PEC will be constructed in stages. Our understanding is that the integration of stage one into NEMDE will not give rise to material market impacts, however the different commissioning dates in relation to existing SRA units and the timing of potential solutions needs to be explained in further detail. We also understand that PEC will involve variable phase shifting transformer settings, affecting power flows and the extent of loop flow problems, which also needs to be explored.

Notwithstanding the need for further information, our observations with respect to the options suggested are:

- We note that AEMO's paper does not explore options for residue treatments under a 'micro-slice' regional boundary configuration. As above, stakeholders would benefit from seeing illustrative price outcomes under this configuration and other measures to demonstrate its feasibility (or otherwise).
- We would support the preservation of any pre-existing SRA units, however this should not be a determinative factor in the choice of solution or its timing, as method changes allow SRA units to be surrendered for re-auction.
- We have reservations around any reallocation of negative residues to unrelated network elements as this would reduce the firmness or reliability of SRAs as a hedging instrument. Bundling of SRA units may be preferable to this.
- Options involving increasing the trigger for clamping could also be explored. The exploration of risk thresholds for affected parties might also inform the allocations proposed between TNSPs and traders under option 1(c).

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

Regards

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