Justice and Equity Centre

30 January 2025

Madeleine Hartley
Project leader
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Your Ref: ERC0386

Dear Ms Hartley,

### Inter-regional settlements residue arrangements for transmission loops

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft rule determination on inter-regional settlements residue arrangements for transmission loops (the Draft).

The JEC does not support the rule change as proposed.

The new arrangement does not aim to align the costs of negative inter-regional settlement residues (IRSR) with the beneficiaries of the transmission loop in any way. Instead the Draft opts for a simpler allocation based on annual regional demand, which is likely to have unreasonable impacts, particularly on NSW consumers. The proposed approach is likely to result in less alignment of costs and benefits than the existing practice of allocating the costs of negative IRSR to the region importing energy when the transaction creating the residues occurs.

We are mindful of the fact that NSW consumers already bear a substantial cost burden for Project Energy Connect (PEC), with the proportion of that cost materially greater than the proportion of benefit they will receive from the interconnector. This results from earlier decisions to allocate interconnector costs on a geographic basis, rather than a beneficiary pays basis. Now simplistically socialising the costs of negative IRSR doubles down on this failure to adhere to a beneficiary pays principle with further consequences for NSW consumers.

Our understanding is that the AEMC is concerned about the volatility of negative IRSR as well as its volume, and the negative impact the former may have on both transmission network service providers (TNSP) and consumers. This is not an irrelevant concern. However, in both the case of TNSPs and consumers there are more effective tools for managing financeability concerns and the smoothing of transmission costs, respectively.

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The AEMC should retain the existing settings in relation to negative IRSR for the time being. This means continuing to allocate the costs of negative IRSR to energy importing regions and using clamping to impose an upper limit on the overall quantum of negative IRSR that appears on the loop. After a period of time operating the transmission loop, a solution should be sought based on the actual experience. This solution should aim to align the costs of the transmission infrastructure with the distribution of its benefits. We support the consideration of more fundamental solution, such as the reconstitution of the loop as a micro-slice (ie. reconfiguring Buronga to be treated as Victorian) at that time.

We welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact Michael Lynch at mlynch@jec.org.au regarding any further follow up.

Yours sincerely,

**Michael Lynch**
**Senior policy officer**

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