



Energy Consumers Australia
T 02 9220 5500
W energyconsumersaustralia.com.au
ABN 96 603 931 326

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Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Inter-regional settlements residue arrangements for transmission loops submission.

Dear Ms Collyer

Energy Consumers Australia (ECA) thanks the Australian Energy Market Commission (AEMC) for welcoming views on the Inter-regional settlements residue (IRSR) arrangements for transmission loops directions paper.¹ We are the national voice for all household and small business energy consumers, and we advocate for a future Australian energy system that works for, and benefits, all who use it.

As we explain in more detail below, ECA supports the AEMC's proposal of 'netting off' to deduct negative from positive IRSR before paying settlement residues for interconnectors that are part of transmission loops.

Negative IRSR has been growing in recent years, and Project EnergyConnect (PEC), which will be included in the National Electricity Market Dispatch Engine (NEMDE) in Q4 2026, will constitute the first inter-regional transmission loop. Importantly, it is also expected to lead to higher magnitude and more frequent negative IRSR.² In Q4 of 2024, Victorian consumers were paying \$2.6m per week in additional transmission use of system (TUOS) charges due to negative residues,³ and given that AEMC expects PEC to result in negative IRSR on individual arms of the transmission loop being more variable than it is in today's NEM,⁴ we expect that taking measures to address this problem will result in material benefits for consumers.

Under the current rules, negative IRSR is allocated to the transmission network service providers (TNSP) in the importing region, but in an inter-regional loop, this could create cash flow issues for TNSPs and cause consumer bill increases. In the Australian Energy Market Operator's (AEMO) rule change proposal they noted that business as usual approach to allocating residues may result in "(unfair) significant wealth transfer between consumers in the different NEM regions."⁵

AEMC suggests that the current IRSR allocation method — if applied to the looped interconnectors — would result in high risk for consumers, who ultimately face the negative IRSR, and high cash flow risks to coordinating network service providers (CNSPs), the cost of which is ultimately borne by consumers.⁶ AEMC therefore proposes netting off negative and positive IRSR in the case of transmission loops.⁷ AEMC also proposes allocating net negative IRSR to CNSPs in each region in proportion to regional

¹ AEMC, [Inter-regional settlements residue arrangements for transmission loops](#), Directions paper, 19 June 2025

² ERC0386 [IRSR arrangements for transmission loops - Draft determination](#) page iii

³ AEMO, [Quarterly energy dynamics Q4 2024](#), January 2025, page 46

⁴ AEMC, [Inter-regional settlements residue arrangements for transmission loops](#), Directions paper, 19 June 2025 page 10

⁵ [New rule change proposal - AEMO - Integration of Project EnergyConnect into the NEM - 20240223.pdf](#) page 9

⁶ AEMC, [Inter-regional settlements residue arrangements for transmission loops](#), Directions paper, 19 June 2025 page 10

⁷ AEMC, [Inter-regional settlements residue arrangements for transmission loops](#), Directions paper, 19 June 2025 page 17



demand.⁸ ECA supports both of these measures and believes they will result in less exposure of TUOS charges to consumers as well as a fairer share of TUOS charges between states.

ECA understands that the netting off approach will reduce the value of the Settlements Residue Auction (SRA) which may have unintended consequences given its role in hedging across regions for generators and retailers. These should be carefully considered and weighed against the benefits to consumers, but we do not believe the potential for unintended consequences should refrain the Commission from acting now to provide clear benefits and avoid costs to consumers.

ECA welcomes AEMC's suggestion of a review of IRSR arrangements. We suggest that the review should take place one year after PEC is included in NEMDE given the potential for material consumer impacts with a transmission loop, as long as this allows for sufficient data to be collected to make an accurate determination of how well the arrangements are working. We support AEMC's proposed scope for this review to be broader than IRSR for transmission loops, and also suggest the following factors be considered when determining whether the IRSR arrangements are working to provide the best outcomes for consumers:

- Do the IRSR arrangements achieve lower average prices for consumers?
- Was the outcome of the IRSR arrangements for transmission loops final determination beneficial for consumers and other market participants? Is there room for improvement?
- Is netting off across time likely to deliver consumer benefits?
- Is netting off across time for interconnectors of all types, not just loops, likely to deliver consumer benefits?
- Is it appropriate for consumers to pay the costs of negative IRSRs when they do arise given they are not able to manage this risk, or should consumers be ringfenced from these TUOS charges?
- Should any future transmission interconnectors be required to consider the effects of their implementation on inter-regional settlement residues, particularly any future transmission loops?
- What, if anything, do the lessons learnt on IRSR inform the AEMC about the potential impacts of settlement residues from a future shift in the wholesale market to nodal pricing?

ECA notes that the AEMO is currently consulting on automation of negative residue management (NRM) for the implementation of transmission loops which also includes aspects of the automated NRM process that are broader than transmission loops.⁹ ECA considers that both AEMC's and AEMO's processes are warranted and may proceed separately, but that each should consider the development of the other to ensure consistency in any future rules and arrangements.

Yours sincerely,

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Michael Dello-Iacovo
Executive Manager, Advocacy and Policy

⁸ AEMC, [Inter-regional settlements residue arrangements for transmission loops](#), Directions paper, 19 June 2025 page 38

⁹ AEMO, [Automation of negative residue management for the implementation of transmission loops](#), Consultation paper, 13 June 2025