



19 January 2023

Daniel Westerman  
CEO and Managing Director  
Australian Energy Market Operator (AEMO)

Submitted via email: [StakeholderRelations@aemo.com.au](mailto:StakeholderRelations@aemo.com.au)

Dear Mr Westerman,

### **Project EnergyConnect (PEC) Market Integration Paper Consultation**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on AEMO's Project EnergyConnect (PEC) Market Integration Paper. Origin considers that AEMO should consult comprehensively on the options for integrating PEC and for managing negative inter-regional settlement residues (NSRs) before proceeding with a preferred option. It should also develop, in parallel, options to manage PEC-related NSRs for any congestion management reform being progressed by the ESB.

#### **Consultation process and options for integrating PEC**

The market integration paper focuses on options to manage negative inter-regional settlement residues (NSRs) if PEC is integrated as an interconnector loop. While the paper briefly mentions an alternative to the loop, (the micro-slice), it does not provide comprehensive information on this option, nor does it consult with stakeholders on which is preferable. It is not clear why AEMO rejected the micro-slice option and how NSRs would be managed under that option – our understanding is that NSRs would be managed largely based on the status quo but this is not clear. The paper also does not set out what the pros and cons of each alternative are.

AEMO should publish a comprehensive consultation paper to set out the implications of the two integration options for PEC, including the impact of each alternative on pricing, settlement residue auctions (SRAs), NSRs and constraint management. Where NSR management changes are identified under either option, AEMO should include worked examples to illustrate the market impacts of these changes, including case studies of extreme days where there are significant counter-price flows.

The paper should also set out any implementation costs and market benefits so that each option can be robustly assessed. This should then be followed by a draft decision which is also consulted on before implementation through procedure or rule changes. This would allow SRA unit holders and other stakeholders to provide feedback.

#### **Options to manage NSRs**

At this stage, Origin does not have a preferred option and considers that more consultation is needed, including worked examples as noted above. However, if AEMO proceeds with integrating PEC as an interconnector loop requiring a change to how NSRs are managed, we note the following:

- Option 4 – financial transmission right (FTRs) arrangements, would likely be costly to implement in the absence of NEM-wide FTRs, which are no longer being considered by the ESB as part of its work on congestion management.
- Option 3 – residue reallocation for SRAs would likely be complex to implement as they would be difficult for unit holders to manage operationally, such as assessing the firmness of the units for hedging purposes.
- Option 2 – bundling of SRA units along pathways appears to be the most promising when balancing complexity, costs and benefits, noting that more information on the implications of this option is needed for Origin to form a firmer view on the preferred approach. Similarly,

more information is needed on Option 1 – removal of NSR clamping procedure to understand the implications of doing so.

The paper questions whether changes to NSR management should apply to all interconnectors, not just those with loop flows. The paper does not provide sufficient information on this issue to contemplate a broad change to how residues are managed. This issue goes beyond PEC integration and should be subject to a separate consultation process if any changes are to be contemplated

### **Congestion management reforms**

Origin agrees that AEMO should continue to progress a PEC-specific option regardless of the work on congestion management reforms. As the ESB has yet to finalise its preferred option, there is a risk that PEC will need to be integrated ahead of any congestion reform being implemented. AEMO should, however, in parallel examine the options for managing PEC and NSRs if changes are required under any of the congestion management reform options the ESB continues to develop.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at [Sarah-Jane.Derby@originenergy.com.au](mailto:Sarah-Jane.Derby@originenergy.com.au) or on (02) 8345 5101.

Yours sincerely,



Steve Reid  
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