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Submitted by email: NEMReform@aemo.com.au

Transgrid submission to Project EnergyConnect – Market Integration Draft Go-Live Plan

To whom it may concern,

Transgrid welcomes the opportunity to provide a submission to the Australian Energy Market Operator's (AEMO) Draft Go-Live Plan for the Project EnergyConnect Market Integration (PEC-MI). Transgrid would welcome further discussion with AEMO regarding the proposed one-month period between the commencement of the PEC loop in market dispatch systems (NEMDE) and the commencement of the new settlement methodology for inter-regional settlement residue (IRSR). During this period, CNSPs including Transgrid, and by extension NSW consumers, may be exposed to significantly larger negative IRSR amounts than under current arrangements, and once new rules are fully in effect. We are eager to support AEMO in managing these risks in the implementation of the Go-Live Plan.

We understand that the PEC-MI go-live approach for the delivery of AEMO's market system changes will be delivered in broadly two stages:

1. **Loop operations start date:** Establishment of the PEC interconnector between SA and NSW in market systems, commencement of loop operation in market systems, and inclusion in Settlement Residue Auctions (SRAs), expected 1 October 2026.
2. **Loop settlements start date:** Commencement of loop-based settlement arrangements including netting-off of positive and negative IRSR on the transmission loop, aligned with the start of the settlement week, expected 1 November 2026.

We understand that separating the dispatch and settlement cutovers allows AEMO to isolate each go-live for monitoring, and allows a period of parallel running before settlement becomes binding. However, the proposed four-week buffer period is significant and creates a material risk exposure to unclamped and non-netted negative IRSR for CNSPs that will ultimately flow on to energy consumers through future Transmission Use of System (TUOS) charges.

We request consideration of whether there is scope to shorten the period between loop operation and loop settlement start dates. This would limit CNSP cashflow risks and the accumulation of costs that will eventually be passed on in full to consumers. We note that while the rules give AEMO strict timeframes for when the loop operations and loop settlement start dates must occur, there may be some flexibility to reduce the length of time between them (delaying the loop operations start date and/or bringing forward the loop settlements start date) so that the period of time between them can be as short as possible, during which Transgrid and consumers' exposure is highest.

Exposure for NSW consumers is material, particularly in the first month of PEC's loop operation

From the point the loop enters dispatch, counter-price flows and negative IRSR may begin to accrue on individual arms of the NSW–SA–VIC loop. For the intervening month, we understand that AEMO would not clamp negative residues while the loop has positive residues overall. This means that CNSPs in SA, NSW and Victoria, including Transgrid, will experience an almost unlimited exposure (at least theoretically) to negative IRSR, if negative IRSR accrue on an interconnector 'arm' into their region in support of positive IRSR arising on the loop overall. While this initially creates a cashflow and liquidity challenge for CNSPs, all negative IRSR costs are eventually recovered from energy consumers in TUOS. Without netting, those gross arm-level negatives are not offset against the positive residues arising elsewhere on the loop in the same intervals, so consumers in the importing region bear the full negative while the corresponding positives accrue to Settlement Residue Distribution unit holders.

This exposure has the potential to be material, highly volatile, and least predictable during the first month of loop operation, which is the month in which the protective netting arrangements are proposed to be absent. It is also the specific harm the netting rule was made to prevent.

The gap creates acute liquidity risks for Transgrid, which should be considered in light of AEMO's concurrent proposal to shorten the settlement cycle. Under the draft Negative Settlements Residue Procedure, effective 9 August 2026, the importing region's CNSP must remit un-netted negative IRSR to AEMO in cleared funds by the fifth business day after the billing period, based on a preliminary statement issued only two business days earlier. Throughout October this shortened obligation applies to un-netted loop negatives that are likely to be elevated and difficult to forecast, so Transgrid may be required to raise substantial equity at short notice. We anticipate that under normal market conditions these exposures are likely to be manageable, but under extreme market conditions or unpredictable energy flows arising from the spring-washer effect, very large exposures could accumulate quickly – AEMO has previously noted an example where negative residues could reach $74m within a matter of hours before cumulative price thresholds are met, and this could now be much higher under current market settings.[1] Having these kinds of large IRSR accumulate over an period of several hours or days could become an acute cashflow challenge for CNSPs and also represent a large and unexpected cost to consumers on TUOS.

Transgrid requests consideration by AEMO of the potential to bring loop-based settlement commencement forward to limit the potential for exposure to significant negative IRSR. Were a parallel-run period considered essential to manage implementation, prior to settlement netting becomes binding, we ask that AEMO minimise the duration of any gap to the extent practicable.

For any residual gap period, we would welcome discussions on interim mitigations and transparency to help manage the resulting exposure for consumers and the importing regions TNSP. For example, by monitoring and if necessary clamping if negative residues exceed certain event or cumulative thresholds during this month.

[1] AEMO, *NEM Transmission Network Service Provider Negative Settlements Residue Procedure – DRAFT*, p 6.

Transgrid would welcome the opportunity to discuss this matter further with AEMO. In the meantime, if you require any further information or clarification on this submission, please contact Lev Yulin via lev.yulin@transgrid.com.au.

Yours sincerely

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