

Public



# Project Energy Connect – Market Integration (PEC-MI)

Reference Paper for stakeholders on  
settlements residue auctions and the  
distribution of inter-regional settlement  
residue

May 2026



Public



**We acknowledge the Traditional Custodians of the land, seas and waters across Australia. We honour the wisdom of Aboriginal and Torres Strait Islander Elders past and present and embrace future generations.**

**We acknowledge that, wherever we work, we do so on Aboriginal and Torres Strait Islander lands. We pay respect to the world's oldest continuing culture and First Nations peoples' deep and continuing connection to Country; and hope that our work can benefit both people and Country.**

'Journey of unity: AEMO's Reconciliation Path' by Lani Balzan

AEMO is proud to have launched its first [Reconciliation Action Plan](#) in May 2024. 'Journey of unity: AEMO's Reconciliation Path' was created by Wiradjuri artist Lani Balzan to visually narrate our ongoing journey towards reconciliation – a collaborative endeavour that honours First Nations cultures, fosters mutual understanding, and paves the way for a brighter, more inclusive future.

## Disclaimer

This document or the information in it may be subsequently updated or amended. This document does not constitute legal or business advice, and should not be relied on as a substitute for obtaining detailed advice about the National Electricity Law, the National Electricity Rules, or any other applicable laws, procedures or policies. AEMO has made reasonable efforts to ensure the quality of the information in this document but cannot guarantee its accuracy or completeness.

Accordingly, to the maximum extent permitted by law, AEMO and its officers, employees and consultants involved in the preparation of this document:

- make no representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of the information in this document; and
- are not liable (whether by reason of negligence or otherwise) for any statements or representations in this document, or any omissions from it, or for any use or reliance on the information in it.

## Copyright

© 2026 Australian Energy Market Operator Limited. The material in this publication may be used in accordance with the [copyright permissions on AEMO's website](#).



# Contents

1	Introduction	4
1.1	Context	4
1.2	Purpose	4
1.3	Regulatory summary	4
2	Changes to Settlement Residue Auction	5
2.1	PEC Unit Auction timings and quantity	5
2.2	Return and re-auction of affected units	5
3	IRSR Rule - Worked Examples	9
3.1	Distribution of positive residues to SRD unit holders	9
3.2	Recovery of negative residues	18

# 1 Introduction

## 1.1 Context

Project Energy Connect (PEC) is a significant infrastructure project to construct a new 330 kV electricity interconnector between South Australia and New South Wales, with an added connection to Victoria. It will provide approximately 800 MW of additional transmission capacity to help integrate renewable energy sources, improve market efficiency, and ensure a reliable power supply.

Flows on the new interconnector will give rise to additional inter-regional settlements residues (**IRSR**), which need to be incorporated into the settlements residue auction process conducted by AEMO under the National Electricity Rules (**NER**) and auction rules (**SRA Rules**) maintained by AEMO in conjunction with the settlement residue committee (**SRC**).

## 1.2 Purpose

This is a supporting document to provide further detail to stakeholders on the impacts of PEC implementation on the settlement residue auction and changes to the IRSR arrangements as a result of the creation of the PEC transmission loop.

This document seeks to support stakeholder understanding with Rule requirements published within the SRA Rules and National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops) Rule 2025 No.9.<sup>1</sup>

Stakeholders should refer to the SRA Rules and NER for final positions.

Changes to systems are being delivered as part of the PEC Market Integration project. Further information on the progress of the [PEC Market Integration project](#) is available on the AEMO website.

## 1.3 Regulatory summary

The AEMC published its final rule on inter-regional settlements residue arrangements for transmission loops (**IRSR Rule**) on 25 September 2025. The IRSR rule provides for a 'net trade' approach to determining the IRSR available for distribution via auctions for each 'directional interconnector' in a transmission 'loop'. When PEC is represented in dispatch as a separate interconnector, it will form part of a loop with the other two interconnectors linking South Australia, New South Wales and Victoria. Worked examples of IRSR calculation for the loop under the net trade approach are provided in section 3.

The IRSR Rule commenced on 2 October 2025, with netting commencing between 1 October 2026 and 2 November 2026. This means that:

- PEC will be represented in AEMO's dispatch systems (creating the loop) on the 'loop operations start date' (on or after 1 October 2026).

---

<sup>1</sup> AEMC, National Electricity Amendment (Inter-regional settlements residue arrangements for transmission loops) Rule 2025 No.9 - <https://www.aemc.gov.au/sites/default/files/2025-09/Final%20rule-%20ERCO386.pdf>

- AEMO's settlement system updated to implement the new IRSR calculation arrangements on the 'loop settlements start date' (on or after the 'loop operations start date', but no later than 2 November 2026).

If there is any gap between the 'loop operations start date' and the 'loop settlements start date', the current IRSR calculation arrangements for radial interconnectors will apply to loop flows in that period.

AEMO's current plan is to:

- Represent the PEC loop in AEMO's dispatch systems from 1 October 2026.
- Commence new IRSR calculations on 1 November 2026 (start of settlement week)

## 2 Changes to Settlement Residue Auction

Under the IRSR Rule, AEMO must endeavour to establish new unit categories for PEC and conduct at least one auction of those units before October 2026 (starting from Q4 2026). AEMO was also required to review and amend the SRA Rules as necessary to account for the IRSR Rule and publish information about the rights of existing holders of IRSR units affected by the integration of PEC in dispatch and settlements. An industry consultation on the changes required to the SRA Rules has concluded<sup>2</sup>. This section summarises the changes for stakeholder reference, and describes the process endorsed by the SRC on 6 February 2026 for the return and re-auction of relevant units auctioned before 25 September 2025, that are affected by the changes in calculation.

### 2.1 PEC Unit Auction timings and quantity

Consistent with the reasonable endeavours obligation under NER transitional rule, AEMO expects to conduct the first auction of PEC Units (SA-NSW and NSW-SA Unit Categories) in September 2026 for Q4 2026 onwards. Earlier auctions are not feasible based on AEMO system readiness needs. The SRA Rules have been amended to add these categories in clause 4.2. AEMO will publish the maximum number of units in each new category as approved by the Settlements Residue Committee, which will be zero until Q4 2026.

From Q4 2026, the number of units available for a quarter will reflect the EnergyConnect interconnector's nominal capacity (800 units = 800 MW) in each direction. AEMO will auction the number of units divided by the number of auctions available for each quarter (SRA rules section 8.1). As with any other unit categories, unsold units at the final tranche will be allocated to the TNSP, with any unsold from a previous tranche rolled over to the next auction for that specific quarter.

### 2.2 Return and re-auction of affected units

The Auction Participation Agreement (**APA**) (schedule 1 to the SRA Rules) includes a right for affected unit holders to 'terminate' their settlements residue distribution agreement (**SRDA**) if there is a change affecting the calculation of IRSR the subject of SRDA units, where the change was public before the SRDA commenced.

<sup>2</sup> <https://www.aemo.com.au/consultations/current-and-closed-consultations/consultation-on-settlements-residue-auction-rules---energyconnect>

Changes to looped interconnector operations and IRSR settlement will alter IRSR calculations for existing Victoria-SA and Victoria-NSW interconnectors in each direction, affecting SRD units allocated in the corresponding four categories at auctions conducted **before 25 September 2025, for relevant quarters from Q4 2026 to Q3 2028 inclusive**.

To facilitate the return of affected units in an orderly way, allowing opportunities for re-auction and confirming that SRDAs will continue in effect for units that are unaffected or have not been returned, AEMO made the following changes to the SRA Rules and form of APA following the recent consultation:

- A new SRA clause 10A requiring AEMO to publish information identifying the affected unit categories and relevant quarters eligible for return under participant termination rights, with the form and dates for termination notices being determined and published with SRC approval.
- Amended clauses 16.5 and 18.1 of the form of APA to recognise that termination is subject to procedural requirements published under the new SRA Rules clause 10A, termination of an SRDA only applies in respect of the affected units included in the termination notice, and notice can be given by email or another method specified in the SRA Rules.

### **All SRA Participants are requested to sign new APAs as soon as possible.**

After consulting with the SRC, the return and re-auction process for eligible affected units is set out below.

- The return window for all eligible affected units commenced **from 5 March 2026**, but return requests cannot be submitted by a participant until it has established a new APA with terms as amended following the recent SRA Rules consultation.
- For units relating to a given relevant quarter the return window ends on the published cut-off date for the auction of the final tranche of units for that quarter.
- The cut-off date for processing Returned Units prior to each auction is **15 business days prior to the auction opening** to allow sufficient time for AEMO administrative checks and system updates.
- Any return requests received after an auction cut-off date will be deferred to the next auction (if available for the relevant quarter). Returned Units will be processed and published prior to the opening of the relevant auction.
- Returned units that have been appropriately surrendered will be available in subsequent auctions. As per SRA Rules 13.2 (a)(i): *if for a Unit Category and a Relevant Quarter the number of Units for which Bids are submitted is less than the number of Available Units, excluding Offered Units<sup>3</sup>, the purchase price for that Unit Category for that Relevant Quarter will be zero*. As such, if all units are not sold at subsequent auctions, the clearing price will be zero.

Please see the dates outlined in the timeline below for return of units for Q4 2026.

### **Participant process to return affected units**

1. Read new APA
2. Sign APA and return to AEMO

---

<sup>3</sup> Note - Offered Units refers to units that are being offered as part of the secondary trading mechanism.



3. Email Unit Return Template to AEMO

Timeline for surrender of PEC affected units (example Q4 2026)

How do I surrender affected units from Q4 2026 SRDA?									
	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
<b>Sign new APA</b> at least 5 business days prior to cut off for surrender of affected units (ie <b>20 business days</b> prior to auction window commencement)			From 5th		1st			3rd	
<b>Lodge unit return template</b> with affected units for applicable quarter <b>15 business days</b> prior to auction window commencement					8th			10th	
Auction bid window						1-15			1-15
<b>Auction date*</b>						15th			15th

\*Subject to clause 5.4, the dates on which auctions for a Relevant Quarter will be held will be published on the AEMO Website 10 business days prior to the first auction for the Relevant Quarter.

## 3 IRSR Rule - Worked Examples

This section sets out worked examples of the application of new methodology in **NER clause 3.6.6** for the allocation and distribution of negative residues around the loop.

### 3.1 Distribution of positive residues to SRD unit holders

The below worked examples show when the net loop allocation is positive, the calculation of:

- The net loop allocation – 3.6.6(a)
- Net importing or exporting regions, determine the linking interconnector and -allocate net trade quantities – 3.6.6(f),(g),(h)
- Calculate provisional net trade amount and net trade amount across each interconnector –3.6.6(i),(j)
- The proportional distribution of inter-regional settlement residue (IRSR) – 3.6.6(b)(1),(2)

#### 3.1.1 Example 1: For Two Net Exporting Regions

**Scenario** - In a loop-based configuration consider a trading interval where power flows across the three looped interconnectors with **two net exporting regions** and **one net importing region**.

For a given trading interval, the regional reference prices (RRPs) and flows are stated below. Indicative losses are included in red.

Figure 1 Example 1 - Two Net Exporting Regions

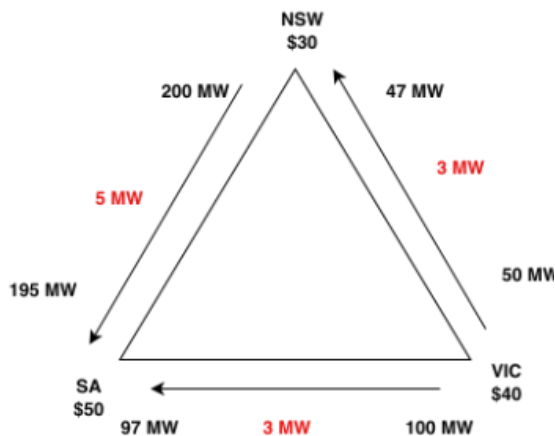


Table 1 Regional prices

Region	RRP
NSW	\$30/MWh
VIC	\$40/MWh
SA	\$50/MWh

Table 2 Interconnector flows and losses

Interconnector	Flow <sub>Export</sub>	Flow <sub>Import</sub>	Losses
VIC1_NSW1	50 MWh	47 MWh	3MWh
VIC1_SA1	100 MWh	97 MWh	3 MWh
NSW1_SA1	200 MWh	195 MWh	5 MWh

**Step-1 Determine if net loop allocation (NLA) is positive, negative or zero – 3.6.6(a)**

Table 3 below shows how the interregional settlement residue (IRSR) on each directional interconnector is calculated in accordance with the methodology for calculating inter-regional settlement residue as set out in the *Methodology for the allocation and distribution of settlements residue*.<sup>4</sup> Net loop allocation is then calculated as the sum of all loop IRSR.

Table 3 IRSR calculations for each interconnector to determine total NLA

Interconnector	IRSR (Flow <sub>In</sub> * RRP <sub>In</sub> ) - (Flow <sub>Out</sub> * RRP <sub>Out</sub> )
VIC1_NSW1	$(30 \times 47) - (40 \times 50) = - \$590$
VIC1_SA1	$(50 \times 97) - (40 \times 100) = \$850$
NSW1_SA1	$(50 \times 195) - (30 \times 200) = \$3750$
<b>Net loop allocation (NLA)</b>	<b>\$4010</b>

As shown above the **NLA** is Positive.

**Step-2 Determine net exporting and importing regions – 3.6.6(a)**

This done by first calculating the net regional export quantity. Net regional export quantity for each looped region is the sum of export flows minus the sum of import flows.

**Logic:** If net export regional quantity is positive then the region is net exporting and if net export regional quantity is negative then the region is net importing.

Table 4 Exporting and importing regions

Interconnector	Net Flow (Flow <sub>Export</sub> - Flow <sub>Import</sub> )	Determined Role
NSW	$(200 - 47) = 153 \text{ MW}$	Net Exporting
VIC	$(50 + 100) - 0 = 150 \text{ MW}$	Net Exporting
SA	$(-97 - 195) = - 292 \text{ MW}$	Net Importing

**Step-3 Determine the interconnectors within the loop which are assigned the net trade quantity - 3.6.6(f),(g),(h)**

**Principle:** As a general rule, there will typically be a net trade on two out of the three directional interconnectors. The two directional interconnectors that will be allocated net trade are the directional interconnectors that link a net exporting region to a net importing region with the direction of net trade being towards the net importing region.

- **Scenario-1 (this example)** If there are two net exporting regions, the net trade quantity for the interconnectors connected to each of those regions is equal to the absolute value of the net exporting region.

<sup>4</sup> AEMO, 2024, page 10 - [https://www.aemo.com.au/-/media/files/electricity/nem/settlements\\_and\\_payments/settlements/methodology\\_for\\_the\\_allocation\\_and\\_distribution\\_of\\_settlements\\_residue.pdf](https://www.aemo.com.au/-/media/files/electricity/nem/settlements_and_payments/settlements/methodology_for_the_allocation_and_distribution_of_settlements_residue.pdf)

- **Scenario-2** If there are two net importing regions, the net trade quantity for the interconnectors connected to each of those regions is equal to the absolute value of the net importing region.

### Determining which region is the first, second and third

For the trading interval, determine which regions are the **first**, **second** and **third** region. For Scenario 1 where there are two net exporting regions, regions are allocated as:

- **First region** is the region with the higher absolute value of the net export regional quantity of the two net exporting regions. If the regions are the same, allocate either of the two net export regions to the first region.
  - First region = NSW1
- **Second region** is the additional net exporting region (lower absolute value of net export regional quantity)
  - Second region = VIC1
- **Third region** is the net importing region.
  - Third region = SA1

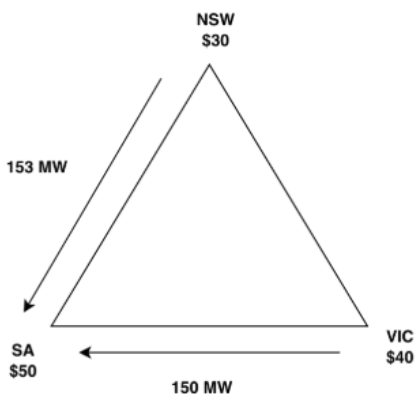
### Define which interconnectors will receive allocations under the net trade quantity

For Scenario 1, interconnectors with net trade quantity allocations are the interconnectors that link a net exporting region with a net importing region, with the direction of net trade being towards the importing region.

- First – Third = NSW1\_SA1
- Second – Third = VIC1\_SA1

### Allocate net trade quantity

Figure 2 Example 1 - Net trade quantity



On redrawing the loop flows we see that net trade is assigned to directional interconnectors NSW1\_SA1 and VIC1\_SA1 which links the Net exporting regions VIC and NSW to the net importing region SA.

**For scenario 1 with two net exporting regions, the net trade quantity (NTQ) for each directional interconnector is equal to the absolute value of the net export regional quantity for the net export regions.**

- The **net trade quantity** for the interconnector **NSW1\_SA1** connected to exporting region NSW is equal to the Net exporting region value which is **153 MW** (Table 4)
- The **net trade quantity** for the interconnector **VIC1\_SA1** connected to exporting region VIC is equal to the Net exporting region value which is **150 MW** (Table 4)

**Step-4 Calculate the provisional net trade amount for the assigned interconnectors - 3.6.6(i)**

First calculate the notional allocation (NA) for each updated directional interconnector that is based on the net trade quantity x price difference between regions. The NA is then aggregated to the sum of notional allocation (SNA) to determine the total notional allocation for the loop. The provisional net trade amount for each directional interconnector is then calculated by scaling down the ratio of NA to SNA by the net loop allocation (Table 5).

This two-step process is required to account for interconnector losses in the calculation of the provisional net trade amount. Losses accrue on adjacent interconnectors based on their relative loss factors and are incorporated into the actual or original flows (Table 2). These losses are captured in the net loop allocation. Under new the net trade quantity methodology, the flows on adjacent interconnectors are shifted based on the regional net trade values. Interconnector losses are therefore not immediately captured in the net trade quantity value. NER 3.6.6(i) accounts for this by utilising this two-step process that ensures the updated IRSR that is allocated based on the net trade methodology does not exceed the original net loop allocation.

Table 5 Calculation of provisional net trade amount

Interconnector	Price difference (RRP In – RRP Out)	Net trade quantity (NTQ)	Notional amount (NA) (Price difference * net trade quantity)	Net loop allocation (Table 3)	Provisional net trade amount (NA/SNA) *NLA
VIC1_SA1	(\$50-\$40) = \$10	150 MW	\$1500		\$1319
NSW1_SA1	(\$50-\$30) = \$20	153 MW	\$3060		\$2691
			Sum of notional allocation (SNA) = \$4560	Net loop allocation = \$4010	Total provisional net trade amount = \$4010

**Step 5 – Calculate final net trade amounts (secondary netting) - 3.6.6(j)**

The provisional net trade amounts are converted to final net trade amounts which will be the SRD unit payouts for that trading interval, as follows:

- If both relevant directional interconnectors are assigned positive provisional net trade amounts, the final net trade Amounts are equal to the provisional net trade amounts.
- If one directional interconnector is assigned a negative provisional net trade amount, this amount is deducted from the Provisional Net Trade amount assigned to the positive arm. This is referred to as Secondary Netting and is discussed in more detail in worked example 3.

The additional step to calculate the final net trade amount as set out in NER 3.6.6(j) is required to account for secondary netting of negative residues. This is shown in example 3 below.

**Step-6 Distribution of Settlement Residues - 3.6.6(b)(1),(2)**

The table below shows the final **net trade amount** for each looped interconnector.

Table 6 Net trade amount for each interconnector

Interconnector	Net Trade Amount
VIC1_SA1	\$1319
NSW1_SA1	\$2691

The net trade amounts are distributed based on the units that the participants hold for the directional interconnector in the loop as per **3.6.6(b)(1),(2)**

- **VIC-SA** unit holders would receive from **\$1319** payout (minus auction fee) based on the units they hold
- **NSW-SA** unit holders would receive from **\$2691** payout (minus auction fee) based on the units they hold
- All other directional interconnector unit holders in the loop would receive no payout for this trading interval.

### 3.1.2 Example 2: For Two Net Importing Regions

**Scenario** - In a loop-based configuration consider a trading interval where power flows across the three interconnectors in the loop creating a scenario with **two net importing regions and one net exporting region**.

For a given trading interval, the RRP and flows are as stated below. Indicative losses are included in red.

**Figure 3 Example 2 - Two net importing regions**

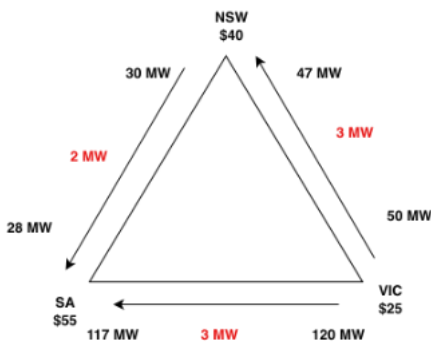


Table 7 RRP for each region

Region	RRP
NSW	\$40
VIC	\$25
SA	\$55

Table 8 Interconnector flows and losses

Interconnector	Flow <sub>Export</sub>	Flow <sub>Import</sub>	Loss
VIC1_NSW1	50 MW	47 MW	3 MW
VIC1_SA1	120 MW	117 MW	3 MW
NSW1_SA1	30 MW	28 MW	2 MW

**Step-1 Determine if net loop allocation (NLA) is positive, negative, or zero – 3.6.6(a)**

Table 9 below shows how the interregional settlement residue (IRSR) is calculated in accordance with the methodology for calculating inter-regional settlement residue as set out in the *Methodology for the allocation and distribution of settlements residue*.<sup>5</sup> Net loop allocation is then calculated as the sum of all loop IRSR.

Table 9 IRSR calculations for each interconnector to determine total NLA

Interconnector	IRSR (Flow <sub>In</sub> * RRP <sub>In</sub> ) – (Flow <sub>Out</sub> * RRP <sub>Out</sub> )
VIC1_NSW1	$(40 \times 47) - (25 \times 50) = \$630$
VIC1_SA1	$(55 \times 117) - (25 \times 120) = \$3435$
NSW1_SA1	$(55 \times 28) - (40 \times 30) = \$340$
<b>Net Loop Allocation (NLA)</b>	\$4405

As seen above the **NLA** is positive.

### Step-2 Determine net exporting and importing regions – 3.6.6(a)

This done by first calculating the net regional export quantity. Net regional export quantity for each looped region is sum of export flows minus sum of import flows.

**Logic:** If net export regional quantity is **positive** then the region is net exporting and if the net export regional quantity is **negative** then the region is net importing.

Table 10 Exporting and importing regions

Interconnector	Net Flow (Flow Export – Flow Import)	Determined Role
NSW	$30 - 47 = -17$ MW	Net Importing
VIC	$(50 + 120) - 0 = 170$ MW	Net Exporting
SA	$0 - (28 + 117) = -145$ MW	Net Importing

### Step-3 Determine the interconnectors within the loop which can be assigned with the net trade quantity - 3.6.6(f),(g),(h)

**Principle:** As a general rule, there will typically be a net trade on two directional interconnectors. The two directional interconnectors that will be allocated net trade are the directional interconnectors that link a net exporting region to a net importing region with the direction of net trade being towards the net importing region.

<sup>5</sup> AEMO, 2024, page 10 - [https://www.aemo.com.au/-/media/files/electricity/nem/settlements\\_and\\_payments/settlements/methodology\\_for\\_the\\_allocation\\_and\\_distribution\\_of\\_settlements\\_residue.pdf](https://www.aemo.com.au/-/media/files/electricity/nem/settlements_and_payments/settlements/methodology_for_the_allocation_and_distribution_of_settlements_residue.pdf)

- **Scenario-1** If there are two net exporting regions, the net trade quantity for the interconnector connected to each of those regions is equal to its net exporting region.
- **Scenario-2** (this example) If there are two net importing regions, the net trade quantity for the interconnector connected to each of those regions is equal to its net importing region.

### Determining which region is the first, second and third

For each trading interval determine which regions are classified as the first, second, and third regions. For **Scenario –2** where one region is a net exporter and two regions are net importers, the regional order is determined as follows

- First region is the region with higher absolute value of the net export regional quantity of the net importing regions.
  - First Region = SA1
- Second region is the additional net importing region (lower absolute value of net export regional quantity)
  - Second Region = NSW1
- Third region is the net exporting region.
  - Third Region = VIC1

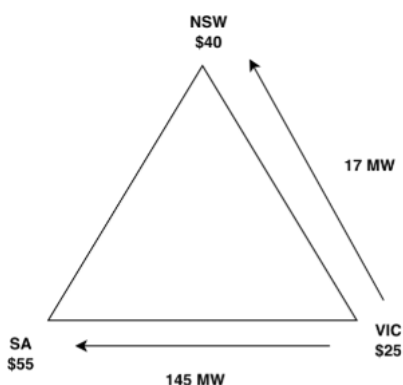
### Define which interconnectors will receive allocations under the net trade quantity

For Scenario 2, interconnectors with net trade quantity allocations are the interconnectors that link the net exporting region to the net importing regions, with the direction of trade being towards the importing regions.

- Third - First = VIC1\_SA1
- Third - Second = VIC1\_NSW1

### Allocate net trade quantity

**Figure 4 Example 2 - Net trade quantity**



On redrawing the loop flows we see that net trade is assigned to interconnectors VIC1\_NSW1 and VIC1\_SA1 which link the net exporting region VIC to the net importing regions SA and NSW.

For Scenario 2 with two net importing regions, the net trade quantity for each directional interconnector is equal to the absolute value of the net export regional quantity for the net import regions.

### Net Trade Quantities (per Scenario-2) - 3.6.6(f)

- The **net trade quantity** for the interconnector VIC1\_NSW1 is equal to NSW net export regional quantity = **17 MW** (Table –10)
- The **net trade quantity** for the interconnector VIC1\_SA1 is equal to the SA net export regional quantity = **145 MW** (Table- 10)

**Step-4 Calculate the provisional net trade amount for the assigned interconnectors - 3.6.6(i)**

As described in Step 4 of Example 1 above, the provisional net trade amount is calculated via a two-step process that uses the notional amount to account for interconnector losses.

Table 11 Calculation of provisional net trade amount

Interconnector	Price difference (RRP <sub>In</sub> – RRP <sub>Out</sub> )	Net trade quantity	Notional Amount (NA) (price difference x net trade quantity)	Net loop allocation (Table- 9)	Provisional net trade amount (NA/SNA) *NLA
VIC1_SA1	(\$55-\$25) = \$30	145 MW	\$4350		\$4161.10
VIC1_NSW1	(\$40-\$25) = \$15	17 MW	\$255		\$243.90
			<b>Sum of notional allocation (SNA) = \$4605</b>	<b>Net loop allocation = \$4405</b>	Total provisional net trade amount = \$4405

**Step 5 – Calculate final net trade amounts (secondary netting) - 3.6.6(j)**

As with Example 1, the provisional net trade amounts allocated to the directional interconnectors are both positive, therefore the final net trade amounts are equal to the provisional net trade amounts (no secondary netting is required).

**Step-6 Distribution of Settlement Residues - 3.6.6(b)(1),(2)**

The table below shows the final **net trade amount** for each regional interconnector.

Table 12 Net trade amount for each interconnector

Interconnector	Net Trade Amount
VIC1_SA1	\$4161.10
VIC1_NSW1	\$243.90

The net trade amounts are distributed based on the units that the participants hold for the directional interconnector in the loop as per **3.6.6(b)(1),(2)**

- **VIC1-SA1** unit holders would receive from **\$4161.10** payout (minus auction fee) based on the units they hold
- **VIC1\_NSW1** unit holders would receive from **\$243.90** payout (minus auction fee) based on the units they hold
- All other directional interconnector unit holders in the loop would receive no payout for this trading interval.

### 3.1.3 Example 3: Secondary Netting

Assume a scenario where we have identified two net-importing regions (NSW and SA) and one net-exporting region (VIC), with net trade quantities allocated to the interconnectors VIC1\_NSW1 and VIC1\_SA1 along with their respective RRP. For this scenario, we have not included interconnector losses in order to demonstrate the process for secondary netting only. The example begins from Step 4 — Determining the provisional net trade amount — using the details below.

Figure 5 Example 3 - Secondary netting

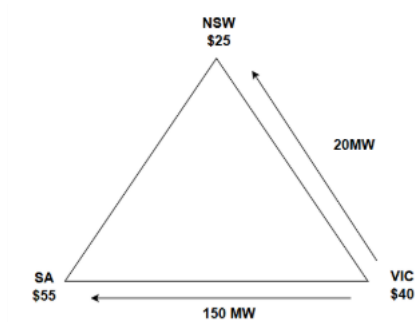


Table 13 RRP for each region

Region	RRP
NSW	\$25
VIC	\$40
SA	\$55

Table 14 Net trade quantity for each interconnector

Interconnector	Net trade quantity
VIC1_NSW1	20 MW
VIC1_SA1	150 MW

#### Step-4 Calculate the provisional net trade amount for the assigned interconnectors - 3.6.6(i)

As described in Step 4 of Example 1 above, the provisional net trade amount is calculated via a two-step process that uses the notional amount to account for interconnector losses. For this example of secondary netting, we have assumed no losses i.e., the notional amount equals the net loop allocation.

Table 15 Provisional net trade amount (secondary netting example)

Interconnector	Price difference (PD) (RRP <sub>In</sub> – RRP <sub>Out</sub> )	Net trade quantity (NTQ)	Notional Allocation (NA) (PD * NTQ)	NLA (Assumption)	Provisional Net Trade Amount (NA/SNA)*NLA
VIC1_SA1	(\$55-\$40) = \$15	150 MW	\$2250		\$2250
VIC1_NSW1	(\$25-\$40) = -\$15	20 MW	-\$300		-\$300
<b>Sum of Notional Amount</b>			<b>Sum of notional allocation (SNA) = \$1950</b>	<b>Net loop allocation = \$1950</b>	Total provisional net trade amount

#### Step 5 – Calculate final net trade amounts (secondary netting) - 3.6.6(j)

Provisional net trade amounts are converted to final net trade amounts under NER 3.6.6(j). In this example the VIC1\_NSW1 interconnector is assigned a negative provisional net trade amount. Therefore, final net trade amounts for

the looped interconnectors will apply the “secondar netting”<sup>6</sup> process to ensure that no looped interconnectors are assigned final net trade amounts.

If one directional interconnector is assigned a negative provisional net trade amount, this amount is deducted from the provisional net trade amount assigned to the positive interconnector in the loop. In this example:

Table 16 Final net trade amount (secondary netting)

Interconnector	Provisional net trade amount	Final net trade amount
VIC1_SA1	\$2250	\$1950
VIC1_NSW1	-\$300	\$0
<b>Net loop allocation =</b>	<b>Total provisional net trade amount =</b>	<b>Total final net trade amount</b>

### Step-6 Distribution of Settlement Residues - 3.6.6(b)(1),(2)

The net trade amounts are distributed based on the units that the participants hold for the directional interconnector in the loop as per **3.6.6(b)(1),(2)**

- **VIC1-SA1** unit holders would receive from **\$1950** payout (minus auction fee) based on the units they hold
- All other directional interconnector unit holders in the loop would receive no payout for this trading interval.

## 3.2 Recovery of negative residues

Below is a worked example when net loop allocation is negative. The purpose of the below example is to demonstrate how the allocation of negative residues of looped interconnectors will be recovered from Co-ordinating TNSPs when the net loop allocation is negative.

<sup>6</sup> AEMC, IRSR arrangements for transmission loops – Final Determination, page 40 - <https://www.aemc.gov.au/sites/default/files/2025-09/Final%20determination-%20ERC0386.pdf>

### 3.2.1 3.2.1 Example 4: Net loop allocation is negative

Figure 6 Example 4 - Net loop allocation is negative

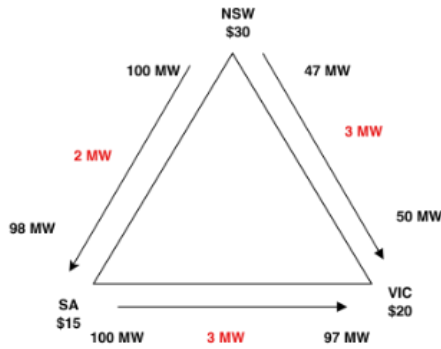


Table 17 RRP by region

Region	RRP
NSW	\$30
VIC	\$20
SA	\$15

Table 18 Interconnector flows and losses

Interconnector	Flow Export	Flow Import	Losses
NSW1_VIC1	50 MWh	47 MWh	3 MW
SA1_VIC1	100 MWh	97 MWh	3 MW
NSW1_SA1	100 MWh	98 MWh	2 MW

#### Step-1 Determine if the net loop allocation (NLA) is positive or negative - 3.6.6(a)

Table 19 IRSR calculations for each interconnector to determine NLA

Interconnector	IRSR (Flow <sub>In</sub> * RRP <sub>In</sub> ) – (Flow <sub>Out</sub> * RRP <sub>Out</sub> )
NSW1_VIC1	-\$560
SA1_VIC1	\$440
NSW1_SA1	-\$1530
<b>Net Loop Allocation</b>	<b>-\$1650</b>

As seen above the NLA is **Negative**. If the NLA is negative, we do not apply the net trade allocation approach as set out in examples 1-3. Instead in accordance with NER 3.6.6(c), the negative net loop allocation is distributed based on regional share for recovery from the relevant TNSPs.

If the NLA is negative, there will be no positive net trade amounts and no SRA unit distributions are allocated to any looped interconnectors for that trading interval.

#### Step-2 Determine 52-week rolling demand share for each region

Assume the total annual rolling 52-week consumption for all the regions is 28,000 GWh based on the annual consumption for each region as shown below

Table 20 52-week consumption and regional demand share

Regions	NSW	VIC	SA	Total
52 Week Consumption/ Regional Demand	14,000 GW	10,000 GW	4,000 GW	28,000 GW
52 Week Regional Demand Share	50.00%	35.71%	14.29%	100%

**Step-3 Allocating net loop allocation to regional demand shares to recover from TNSPs – 3.6.6(c)(2)**

A negative net loop allocation for a trading interval is recovered from TNSPs as shown below.

**TNSP Charge** = Share x Net Loop IRSR

Table 21 Regional demand share and TNSP charges

Regions	NSW	VIC	SA	Total To Recover
Share <sub>r</sub>	50%	35.71%	14.29%	100%
TNSP Charge	\$825	\$589.29	\$235.71	\$1650