



Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

5 September 2024

To Ms Collyer,

Inter-regional settlements residue arrangements for transmission loops – Consultation paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper on the rule change request to amend the National Electricity Rules (NER) for interregional settlements residue (IRSR) arrangements for transmission loops.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet which includes renewables, gas-powered generation, diesel peakers, and battery energy storage systems. ENGIE also owns Simply Energy which provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE appreciates that the Australian Energy Market Operator (AEMO) has engaged with stakeholders on the IRSR arrangements related to the market integration of Project Energy Connect in the years leading up to this rule change request. As AEMO's consultation has already considered the options to address this complex issue, ENGIE does not consider there is value in further exploring the alternative solutions set out in the consultation paper.

However, the Commission should consider requiring that the amendments to the National Electricity Rules (NER) are reviewed after a period of time, to ensure that the new framework for managing and allocating IRSR is resulting in the desired outcomes for consumers across all regions.

It is critical that the rule change maintains the value of interregional hedging

ENGIE supports AEMO's proposal to maintain the current approach for distributing positive IRSR through settlement residue distribution (SRD) units. It is critical that the rule change maintains the value of SRD units, which play an important risk management role in the National Electricity Market (NEM).

The introduction of Project Energy Connect will likely result in lower levels of gas-fired generation in South Australia, which would reduce opportunities for hedging within South Australia. As a result, interregional hedging will likely take on greater importance and reinforce the ongoing need for settlement residue auctions to support interregional trade, liquidity, and the efficient functioning of the NEM.

An alternative framework that decreased the firmness of SRD units would likely significantly reduce the utility of SRD units and their usefulness in managing interregional price risks. This would ultimately reduce the interregional trade between South Australia and New South Wales and the consumer benefits of Project Energy Connect.

We support AEMO's proposed allocation of negative IRSR

As noted in the rule change request, AEMO has engaged with stakeholders in developing its proposed solution and commissioned modelling on options to redistribute negative IRSR. ENGIE does not consider there is value in the Commission further exploring the alternative options set out in the consultation paper, which would require significantly more modelling and analysis of market outcomes to be completed before they could be reasonably considered by stakeholders.

ENGIE agrees with the Commission that it is relevant to consider the outcomes for consumers under different options for redistributing negative IRSR. However, we caution that assessing wholesale pricing outcomes around the transmission loop under the different options would not provide a full picture of the costs that would flow through to customer bills. This is because electricity retailers hedge their exposure to the wholesale market, including through interregional hedging, and set the wholesale cost component of their retail prices based on the cost of their financial contracting positions.

If the Commission continues to assess its alternative options, it should also have some consideration of the impacts to transmission network service provider (TNSP) cashflows, to the extent that each option could require TNSPs to hold differing amounts of working capital to manage negative IRSR, which may flow through to customer bills via higher TUOS charges.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0436 929 403.

Yours sincerely,



Matthew Giampiccolo

Manager, Regulation and Policy