



NEM Reform Team
Australian Energy Market Operator
By email: NEMReform@aemo.com.au

1 December 2023

To whom it may concern,

Project Energy Connect Implementation - Directions Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Operator (“AEMO”) in response to the Project Energy Connect - Directions Paper (“the Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas, and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Maintaining an effective hedge market should be the priority

Settlement Residue Auction (SRA) units play an important role in risk management in the NEM. They provide a means for effective interregional hedging. The advent of Project Energy Connect is expected to lead to lower levels of gas fired generation in South Australia, reducing opportunities for hedging within South Australia. Accordingly, interregional hedging is likely to take on greater importance and this makes it even more important that SRAs remain an effective hedging tool.

ENGIE agrees with AEMO’s observation that the 2008 Congestion Management Review established a regulatory precedent that recovery of negative interregional settlement revenue (IRSR) via SRA unit holders would reduce the firmness of these units without significant benefit. This precedent still holds and ENGIE considers that negative IRSRs should continue to be recovered via Transmission Use of System (TUoS) charges.

ENGIE considers that it follows from this approach that any reallocation of IRSR should be restricted to negative IRSR only.

AEMO should further investigate pragmatic options to mitigate the impact of loop flows

Given this consultation and any subsequent rule changes are driven by the introduction of loop flows to the physical system (and therefor potentially in dispatch), ENGIE considers that AEMO should investigate

pragmatic options to avoid the challenges this will create, by further investigating the proposed micro-slice option.

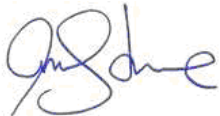
While we understand that AEMO has reservations about this option, it is disappointing that the opportunity has not been taken to model the micro-slice approach in order to understand the magnitude of these concerns. ENGIE considers that the micro-slice approach should remain a live option until this analysis has been carried out.

The regulatory framework can be utilised to manage cashflow impacts on TNSPs

ENGIE considers that cashflow impacts on TNSPs should not be a factor in determining the most appropriate option. If negative IRSR increases to the extent that TNSPs consider their cashflows are materially impacted, it should be simple to adjust the rules to allow them to recover higher estimated IRSR costs *ex ante*.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jamie Lowe', is positioned below the text 'Yours sincerely,'.

Jamie Lowe

Head of Regulation,
Compliance, and Sustainability