



Stakeholder Relations Team
Australian Energy Market Operator

By email: StakeholderRelations@aemo.com.au

19 January 2023

To whom it may concern,

Project Energy Connect Implementation 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 Implementation 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 more than 720,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

More time and information needed for this potentially significant reform

ENGIE appreciates the work to date by AEMO on the issue of accounting for interregional settlement residues once Project Energy Connect is commissioned, allowing for loop flows between New South Wales, South Australia and Victoria. The Paper briefly explains the issues that may result from loop flows (primarily related to the possibility for negative settlement residues, sets out guiding principles for assessing options and canvasses high level advantages and disadvantages of a range of options. Unfortunately, the paper does not go far enough in assessing the likely materiality of impacts of various options and so ENGIE considers a further round of consultation, including further details and modelling of how the options might work in practice, is necessary to allow stakeholders to provide fully informed feedback.

The evolving governance of the NEM is resulting in more significant decisions being made by AEMO regarding market arrangements. This case is simply one example, albeit it is potentially one of the more significant, given the implications of the varying options. For instance, one option proposed in the Paper is the implementation of Financial Transmission Rights, an instrument previously contemplated by the AEMC as a major transmission reform. In this light, ENGIE considers that a more thorough examination of the options and further development of the evaluation framework is required before reaching a decision.

A reasonable analogy for the level of consultation and analysis that would be appropriate is that carried out by the Australian Energy Market Commission (AEMC) for a typical rule change. Some key features include:

- A clearly defined problem statement.

- A well-developed evaluation framework well-oriented to the ultimate goal of advancing the National Electricity Objective (NEO)¹.
- An opportunity for stakeholders to comment on the application of the evaluation framework.
- Two to three rounds of consultation (depending on the scope, materiality and complexity of the issues to be addressed in the rule change) before a final decision is made.
- Thorough consideration of the pros and cons of the options under consideration.
- Where relevant, market modelling or other analysis to assess the materiality of the impacts of the different options.

AEMO is in no way obliged to replicate the AEMC approach, which is partly a consequence of the legal requirements under which AEMC must assess rule change proposals, but ENGIE considers that this approach is a reasonable benchmark for AEMO to aim for as its role in implementing a range of reforms and other changes to the NEM is becoming more significant.

In the specific case of this Paper, while the guiding principles set out appear broadly reasonable, AEMO has not sought feedback from stakeholders to confirm they represent the most appropriate basis for evaluation of the options. Nor is it clear precisely how they align to the NEO. Further consideration of how the principles interact, how they are applied to the options and where trade-offs may be required would be welcome. For example, ENGIE agrees with the principle that “the solution must allow AEMO to maintain system security at all times”, but the Paper does not indicate whether any of the options have direct implications for system security. Additionally, while cost is an important consideration, it is not an absolute requirement (unlike system security), and it does not follow that the lowest cost options is the preferred solution if other options perform better against the other principles. For this reason, a clearer understanding of the costs of each option and how those costs do or don’t flow through to consumers is important to assist stakeholders in comparing options. A similar point could be made about predictability and transparency.

Preliminary views on the options

Noting our views stated above that further work is required to allow stakeholders to fully evaluate the options, ENGIE has the following comments at this stage.

Option 4 – Financial Transmission Rights – whatever the merits of this option more broadly in improving the efficiency of the wholesale market, it does not appear plausible that it will be implemented, given the history of transmission access reform and the ESB’s parallel process to develop congestion management options. ENGIE considered this option should not be pursued further.

Option 2 – Bundling settlement residue auction units (SRAs) – on the face of it this option looks likely to undermine the use of single units to hedge inter-regional transactions. To the extent this is the case, it is unlikely to improve the efficiency of the market. If AEMO thinks this option warrants further consideration,

¹ Or, of course, the National Gas Objective in the case of gas market reform.

then it needs to demonstrate to stakeholders how inter-regional hedging can still be effective with bundled units. Otherwise, this option should also be discounted.

Option 1 – removal of interconnector clamping – as the Paper notes this would allow negative settlement residues (NSRs) to accumulate more frequently when counter price flows occur. This would have implications for cashflows of the party to whom the NSR is allocated. Currently this is the TNSP, but the Paper proposes alternatives where the allocation is fully or partly to the holders of SRA units. As the status quo, allocating NSRs to the TNSP would have the lowest implementation costs and not require a rule change. ENGIE appreciates AEMO’s concern that the TNSPs have limited ability to manage their exposure to NSRs and would simply pass them on to customers. However, it’s not clear that this is materially worse than the alternatives, given that SRA holders aren’t well placed to manage this exposure either (except by withdrawing from SRA participation, which would itself have potentially material implications for market efficiency) and the logic that additional costs for market participants are likely to ultimately flow through to customers, even if by less direct means than through transmission charges.

Accordingly, ENGIE considers that AEMO should model plausible outcomes from the removal of clamping to understand the likely quantum and materiality of NSRs that would arise.

This modelling would also assist evaluation of Option 3 – residue reallocation of SRAs. The Paper provides two methods for allocation which are capable of producing quite different outcomes, and modelling would help stakeholders evaluate which method might be more appropriate.

ENGIE notes that an additional option, the micro-slice is explained in the Paper without being listed as one of the options for consideration. Further clarity on this option and whether it is still on the table is required given ENGIE notes there is support for this option amongst market participants.

Other matters

ENGIE sees no need to reform other inter-regional settlement arrangements where the loop flow does not arise. If there was a near term prospect of Tasmania or Queensland being interconnected with an additional region, then there might be value in implementing a NEM-wide reform. But the ISP does not currently contemplate such outcomes, which indicates a low probability of additional loop flows being introduced to the NEM.

While it is more important to find and implement the best option rather than expedite the decision, ENGIE recognises that the advance auctioning of SRAs means that some options may have implications for SRA units already held by participants under auctions carried out before the final decision is taken. Whatever solution is adopted, the fact that participants purchased these SRAs in good faith should be paramount in considering the appropriate treatment of these SRAs. What options are open to AEMO will depend on the preferred approach that is adopted and whether it needs to be applied from the completion of Phase 1 of the project or only from Phase 2 when the impacts are likely to be more material.

On the face of it, and based in the information in the paper, the basic premise of the paper will pertain once Energy Connect is commissioned regardless of which (if any) of the proposed congestion management

options is implemented. This concurrent reform process should thus not inhibit AEMO from seeking the best solution to the specific issues set out in the Paper.

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', written in a cursive style.

Jamie Lowe

Head of Regulation,
Compliance, and Sustainability.