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

10 July 2025

Dear Ms Collyer,

Inter-regional settlements residue arrangements for transmission loops - directions paper

ENGIE Australia & New Zealand (ENGIE) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) directions paper, which seeks feedback on the AEMC's preferred approach to 'net off' negative inter-regional settlements residue (IRSR) from positive IRSR in 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 that includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE has material concerns with the AEMC's proposed solution to 'net off' IRSR in transmission loops. This is primarily due to the way the 'netting off' approach would likely constrain the settlement residue auction (SRA) process, which is an important hedging tool used by market participants to manage wholesale market exposures. While ENGIE recognises the valid Transmission Network Service Provider (TNSP) cash flow issues raised during this rule change process, ENGIE is concerned that the proposed 'netting off' approach may result in higher prices for consumers, rather than the lower prices anticipated by the AEMC analysis and is overly weighted to the interests of TNSPs over market efficiency.

With this context in mind, the remainder of this submission sets out ENGIE's more detailed response to the directions paper. ENGIE provides feedback on areas of concern associated with the:

- negative impacts of the proposed rule change on market participants, consumer outcomes and prices;
- incompatibility of this proposed rule change with the early findings from the National Electricity Market Wholesale Settings Review (the NEM Review) and;

- the AEMC’s material change in direction since the draft rule in December 2024, resulting in inadequate time to determine an appropriate solution to the Australian Energy Market Operator’s (AEMO) original rule change proposal.

Reform that seeks to inhibit hedging tools such as SRAs is likely to have adverse outcomes on both consumers and market participants

ENGIE notes that SRAs provide market participants with an important hedging tool to manage wholesale market risks and support competition between participants. This then enables retailers to offer more competitive retail contracts while providing consumers with greater protection from wholesale prices. Given the mutual benefits the current SRA process brings, ENGIE has concerns that the AEMC’s proposed ‘netting off’ approach will weaken SRAs and undermine their value to both market participants and consumers.

SRAs are already complex financial instruments to value, as their pricing is closely linked to the physical performance of the interconnectors on which they are based. A range of uncertainties undermines their worth, and the proposed rule change only further erodes their value as it introduces exposure to physical risks from other interconnectors within the same regional loop. This is likely to impair market participants' confidence in the SRA process and reduce its effectiveness as a hedging tool.

ENGIE contends that if SRAs become too difficult to price, they risk trading at lower prices or failing to clear in auctions altogether. In such cases, market participants may need to source alternative hedging products that are less efficient and more costly than SRAs. Higher hedging costs would ultimately be reflected in the wholesale cost component of electricity bills, leading to adverse outcomes for consumers.

The ’netting off’ approach may not align with early findings from the NEM Review

ENGIE understands that early findings in the NEM Review have underscored the importance of a liquid and accessible derivatives market.[1] Against the backdrop of this finding, ENGIE is concerned that the AEMC’s proposed ‘netting off’ approach runs incongruent with the future direction of the NEM and the anticipated outcomes for consumers. Rule changes that undermine a liquid and accessible derivatives market are likely to impede the NEM as it adapts to an increasingly volatile and weather-dependent system. ENGIE contends that it may be worthwhile for the AEMC to consider alternative approaches that do not harm the derivatives market and promote the long-term interests of the NEM.

The material change in approach from the December 2024 draft rule requires further consultation

ENGIE is concerned that the AEMC’s decision to publish a directions paper, which essentially amounts to a second draft decision, has given market participants an inadequate amount of time to respond to a complicated proposal that materially alters the SRA process. As it stands, the discordant process

[1] Nelson et al. *NEM Review Open Forum Presentation – May 2025*, 2025.

undertaken by the AEMC now means it is in a difficult position of needing to adhere to time sensitivities while many issues remain unresolved. As such, ENGIE considers it may be worthwhile for the AEMC to revert to the draft rule, before undergoing a proper consultation process to properly implement AEMO's original rule change request while appropriately considering TNSP concerns as part of a subsequent review.

Concluding remarks

Should you have any queries in relation to this submission, please do not hesitate to contact me, by telephone, on 0400 731 274.

Yours sincerely,

Ronan Cotter

Ronan Cotter
Regulatory Advisor