



Dr Kris Funston
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To Dr Funston,

Transmission STPIS Review: MIC and NCIPAP – Issues Paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Regulator (AER) on the issues paper for the review of the transmission service target performance incentives scheme (transmission STPIS).

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 supports the retention of both the market impact component (MIC) and network capability component (NCC) of the transmission STPIS. We would support amendments to both the MIC and NCC to ensure they remain fit-for-purpose during the continued and accelerating transition to renewable energy generation.

Market impact component (MIC)

ENGIE supports the MIC being retained and amended to ensure it is fit-for-purpose. Based on the information set out in the issues paper, it is clear that the design of the current MIC is not able to meet its intent of incentivising transmission network service providers (TNSPs) to undertake planned outages at times when they would have little impact on wholesale market outcomes. As described in the paper, the MIC is not currently providing incentives to TNSPs to minimise disruptions during times of peak demand, due to the maximum penalty amount being achieved annually through the current operation of the market.

ENGIE would support the AER further investigating options three (revise performance targets) and four (better target rewards and penalties). These are the only provided options that may result in an MIC that retained incentive properties that reward TNSPs for minimising the market impact of outages. We would also support the AER considering other options that more fundamentally redesign the MIC, such as that

proposed by the Clean Energy Council in its submission, if these options would result in more effective incentives on TNSPs in the context of the new market reality of increasing renewable energy generation that is locationally dispersed.

While there is a case to revise the performance targets upwards to address the evidence of \$10/MWh events increasing substantially, we note that the revised targets should not be set at a level that is too simple to achieve and potentially result in the opposite problem (that is, that TNSPs achieve the maximum reward achievable under the MIC each year).

We also ask that the AER consider the operation of the MIC in the context of other incentive schemes available to TNSPs. We note that there is an information asymmetry between TSNPs and the AER (as well as industry participants), such that TNSPs are incentivised to strongly advocate to amend schemes that are unfavourable to them, but are unlikely to highlight instances where they are over-rewarded by incentive schemes.

Network Capability Component (NCC)

Significant investment in transmission infrastructure is required to support the transition to renewable energy generation. Despite a rightful shift in focus towards large augmentation projects, ENGIE considers there is a case to retain the NCC in order to continue incentivising TNSPs to identify and prioritise low-cost projects that can address issues with network limitations. A removal of the NCC may implicitly signal that TNSPs should shift their focus on maximising remuneration through investment programs rather than maintaining the service levels of existing assets.

We would support amendments to the NCC to make it less administratively burdensome for TNSPs and to increase flexibility of the NCC. While the effectiveness of the incentives created by the NCC may not currently meet the AER's expectations, this may be addressed through easing the administrative resources required to apply the NCC.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, [REDACTED]

Yours sincerely,

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Matthew Giampiccolo

Manager, Regulation and Policy