

16 January 2020

Meredith Mayes
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



Dear Ms Mayes,

Submission to Transmission Loss Factors rule change draft determination

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination.

The National Electricity Market is undergoing a structural transformation in generation and operation, which the current regulatory framework is not well-designed to deliver. The inadequacy of the planning and investment signals for new, large-scale generation has been a growing issue, with the volatility of Marginal Loss Factors (MLF) just one symptom.

As noted in our earlier submission, while we agree with the rule change proposal that the treatment of transmission losses should be reviewed, we are not sure of the merit of the model proposed.¹ PIAC agrees with the AEMC that the proposal – to share inter-regional settlement residues and move from a marginal to an average loss factor methodology – would not address the underlying cause of recent and expected future MLF volatility.

We also reiterate that any change to MLFs or transmission losses more broadly must follow and complement the overarching reforms to the generation and transmission frameworks, such as those currently being developed through the AEMC's COGATI review.

Whilst broader reforms from the COGATI review are being developed and implemented, PIAC supports the AEMC's proposal to remove the requirements to use regression analysis for inter-regional loss factors, that MLF values be based on 30-minute periods, and that MNSPs be treated as invariant in calculations of MLF. Removing unnecessary prescription in the Rules provides the Australian Energy Market Operator (AEMO) greater flexibility to amend the MLF methodology in consultation with stakeholders.

Alternatives raised in PIAC's earlier submission

In our earlier submission, we highlight the distinction between the treatment of transmission losses for financial settlement, and their treatment for physical dispatch or operation. To an extent, the operational and settlement MLFs are interlinked since, in the short

¹ PIAC, [Submission to Transmission Loss Factors rule change](#), July 2017.

term, any change in settlement sends a financial signal which influences a generator's market offers and therefore physical dispatch. In the longer term, MLFs influence a generator's revenue stream and therefore the profitability (or not) of a given project.

However, because generators cannot instantaneously respond to fluctuations in MLFs, settlement and operational values can be decoupled to an extent. This can be used as a tool to achieve policy goals, such as incentivising efficient investment in generation projects through improving certainty of future returns.

PIAC proposed two alternative models for transmission losses in our earlier submission:

- an 'insurance product' for transmission loss factors where connecting generators could opt to purchase assurance that changes in their loss factor would be bound within a particular amount (e.g.: by a cap and floor or limited rate of change per year); and
- a model where connecting parties would have their transmission loss factor locked-in for a particular period of time such that subsequent connection at a point in the network bears the full impact (whether positive or negative) of their connecting rather than it being spread across all existing parties.²

The AEMC concluded that both models would not improve current outcomes or address the identified issues in the rule change. PIAC disagrees and considers the proposals put forward are worth further consideration including through any review by AEMO of its loss factor methodology.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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² Ibid, 3-6.