Australian Energy Market Commission

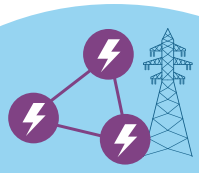
HAVE YOUR SAY: TRANSMISSION LOSS FACTORS DRAFT DETERMINATION

14 November 2019

The AEMC today released a draft determination to keep the existing signals for investment in new generation in the most efficient parts of the national grid – rejecting a request for consumers to pay for electrical losses for generators located in congested areas of the grid.

Stakeholder feedback is being sought on the AEMC's draft decision to retain the marginal loss factor methodology for calculating electricity lost during transmission, rather than moving to an average loss factor methodology.

1 The power system is decentralising



At the edge of the grid, transmission lines may not be as strong. And if several generators build close to each other, there can be increased congestion, especially when the wind and sun is strong and everyone wants access to the network at the same time.

Powerlines lose increasing amounts of electricity over long distances. How much revenue can be earned by generators is worked out by taking these losses into account, meaning generators locating in these areas will earn less. Marginal loss factors provide important locational signals and help minimise costs to consumers.

2 Changing the rules on grid access and charging

This request was made at the same time we are finalising an entirely new way of managing costs and risks of getting new generation and transmission into the market to benefit consumers. We acknowledge that some investors are seeking relief from loss factor volatility. However, this is a symptom of the structural change happening across the power system. This change is being addressed by broader market reforms currently underway through the AEMC's review on coordination of transmission and generation which will deliver on AEMO's Integrated System Plan and is proposed to be a bedrock of the Energy Security Board's 2025 market design work.

3 Keeping investment signals strong and consumer costs down

Many new generators are already responding to loss factor signals. We are increasingly seeing innovative projects where solar farms and wind farms are co-locating with large scale batteries, enabling electricity to be stored for later use.

The proponents' request for a change to average loss factors would dampen locational signals, potentially leading to generators being built in the wrong place and costing consumers more in the long run. This is because the requested change would lead to consumers having to pay more to cover the costs of inefficiently located generators.

Next steps: Submissions on the draft determination are due by 16 January 2020.