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Submission to the Transmission Loss Factors rule change: Consultation Paper

AGL Energy Limited (AGL) is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.6 million customers in New South Wales, Victoria, Queensland, Western Australia, and South Australia. In addition, we continue to be an aggregator and developer of Demand Response (DR) and Distributed Energy Resource (DERs) solutions including the deployment of Virtual Power Plants (VPPs).

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) rule change consultation paper, seeking to evaluate the existing transmission loss methodology and settlement residue in the National Electricity Market (NEM). Specifically, we note that the following Rule changes have been proposed (the Rule Proposals):

- a move to Average Loss Factors (ALFs) from the current Marginal Loss Factor (MLFs) methodology; and
- redistribution of the inter-regional settlement residue (IRSR) to include an 'equitable' split between generators and network users who are subject to non-locational prescribed transmission use of service (TUOS) charges.

AGL recognises the importance of the Rule Proposals at a time where significant volatility is impacting the MLF calculation process. Recent published MLF values for FY2019-20 have resulted in major drops in MLFs for some generation plant[1]. This variability has had the largest impact in areas that have a combination of high renewable penetration, lower grid strength and are situated further from large load centres. Indeed, in some areas of the grid, generators impacted by all three of these factors have faced the strongest decline in MLFs year-on-year, in addition to broader system strength issues.

[1] https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/Loss-factor-and-regional-boundaries

While AGL believes that these multiplier decreases are in part associated with the design of the current MLF methodology and the National Electricity Rules (NER), which obligate the development of static, yearly MLF values, other attributes could similarly be blamed. Two of these factors include the growing rate of renewable generators seeking connection to the grid and their level of understanding of the NEM, the NER and the role of MLFs; and/or the lack of information and general transparency about other developments taking place in a defined region (and the uncertainty and volatility this creates in the minds of debt and equity financiers).

Noting the significance that MLFs play to existing and new generation as a market signal and multiplier impacting dispatch and settlement, we believe improving access to information and data can better empower developers to make fully informed commercial decisions about where to build and connect to the grid.

However, AGL is also cognisant of the other transmission reforms and market reviews currently taking place. We strongly advocate for a consistent and coordinated approach to policy and regulatory reform which delivers the National Electricity Objective and incentivises investment at the lowest cost to consumers. Specifically, the Coordination of Generation and Transmission Investment (COGATI) review[2] has proposed a number of major changes to transmission access and is considering how to incorporate loss factors into these changes. Similarly, the Transparency in New Projects[3] rule change process is examining a range of proposed obligations on the Australian Energy Market Operator (AEMO), Transmission Network Service Providers and market participants to improve information about generation developments.

While the Rule Proposals provide a high level overview of an alternative approach to loss factor calculation and distribution of settlement surpluses, it does not provide a detailed examination of the costs and benefits. In light of the AEMC's other related work processes, and in the absence of this analysis, it is difficult to determine if timely implementation of the Rule Proposals would deliver overall value to consumers and added certainty to generators, whilst maintaining competitive neutrality in the market. Further, if COGATI is progressed, serious consideration must be given to the system changes and costs that would be incurred by AEMO and the industry.

AGL therefore believes that MLFs continue to provide the most efficient methodology for the assessment and application of transmission losses under current market conditions. This is because of the value it places on the marginal unit of electricity transmitted by individual generators (existing and new) across the network.

We support interim arrangements that can address the transparency and knowledge gap issues identified above on the basis that they could be implemented without changes to the NER, and are complementary to the Transparency of New Projects rule change request. At the recent MLF workshop in Brisbane, AEMO outlined an approach to publish 'non-binding' MLF values on a quarterly basis and provide 'accredited consultants' with access to its MLF model[4]. AGL believes that both options will improve industry transparency and commercial decision making, and potentially reduce 'MLF shock' by providing generators with a likely MLF trajectory over the period between annual published values. This information will also better equip financiers in their understanding and delivery of risk management strategies with respect to

[2] https://www.aemc.gov.au/market-reviews-advice/coordination-generation-and-transmission-investment-implementation-access-and

[3] https://www.aemc.gov.au/rule-changes/transparency-new-projects

[4] AEMO Presentation to the Transmission Loss Factors public workshop - 4 July 2019

their investment decisions. We encourage the AEMC to work with AEMO to implement these simple yet effective measures prior to the publication of FY2020-21 MLF values.

Over the longer term, AGL supports the consideration of transmission loss factors as part of the COGATI work program to ensure that no unintended consequences, including linkages to the contract markets, occur.

If you have any queries about this submission, please contact Dan Mascarenhas on (03) 8633 7880 or DMascare@agl.com.au.

Yours sincerely,

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