

18 July 2019

Mr John Pierce AO
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online: www.aemc.gov.au

Dear Mr Pierce,

Transmission Loss Factors Rule Change Proposal (ERC0251): Consultation Paper

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in renewable energy and energy storage along with more than 6,000 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) consultation paper in relation to the transmission loss factors rule change proposal. This consultation is critical as the recent year-on-year volatility in Marginal Loss Factors (MLFs) has been challenging for both existing generators and investors and developers of new generation. We consider a review of potential amendments to the transmission loss factors framework needs to be carried out to ensure that this framework remains fit for purpose for the National Electricity Market (NEM) and to assess whether amendments can achieve the National Electricity Objective (NEO).

A significant transition is underway in the NEM. The Australian Energy Market Operator's (AEMO's) Integrated System Plan (ISP) anticipates that around 70 terawatt hours (TWh), equivalent to approximately one-third of total NEM consumption, will exit the market as a large number of coal-fired generators retire by 2040.¹ The ISP finds that the least-cost transition plan to replace retiring generation is a portfolio of largely utility-scale renewable generation and storage that includes 28 gigawatts (GW) of solar, 10.5 GW of wind and 17 GW / 90 GWh of storage.²

The benefits to consumers of new renewable energy developments is two-fold. In the first instance, as significant amounts of generation are expected to close in coming years, additional new generation is required to ensure an orderly transition that maintains reliability for customers in the NEM. New renewable energy developments do this at least

¹ AEMO, Integrated System Plan, July 2018, p. 21. Available at: https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2018/Integrated-System-Plan-2018_final.pdf.

² *Ibid*, p. 33.

cost as solar and wind technologies, including when coupled with energy storage, are already the lowest cost form of new-build technology, and these costs are projected to continue to fall.³ Secondly, as the lowest cost form of new generation, new renewable energy developments will put downwards pressure on wholesale prices, which should flow onto customers.

The CEC considers the objectives for the transmission loss factor framework are efficient operation and dispatch, efficient investment signals and appropriate allocation of risk. We strongly believe that on balance a loss factor approach that supports efficient investment in proposed as well as future potential new generation is what is needed to support the transition and future direction of the energy market.

MLFs are a multiplier to account for transmission losses between a generator and the regional reference node. As a result, MLFs have a direct impact on a generator's revenue and significant MLF adjustments can materially influence a generator's financial sustainability. MLFs also have implications for the business case of proposed developments and their ability to access financing because of perceived and actual MLF risk that must be factored into financing arrangements. Given this, a transmission loss factor approach that can be robustly forecasted, affords greater certainty and therefore facilitates more informed decision making will support long-term efficient investment in new generation.

The CEC acknowledges there are other market reform processes currently underway that have links with transmission loss factors, in particular the coordination of generation and transmission investment (CoGaTI) work program. We consider a revised transmission loss factor framework could be developed to complement the CoGaTI work. Although potentially a short-term reform depending on the outcomes of the CoGaTI review, this could still achieve the NEO by addressing current challenges with MLFs and supporting continued investment in new generation prior to the anticipated July 2022 implementation timeframe for CoGaTI. As such, the AEMC should give consideration to an approach that is simple and easy to implement, preferably so that it can be in place for the 2020/21 loss factors, and that has flexibility to adapt pending the outcomes of the CoGaTI reforms.

The CEC considers greater transparency will also provide investment certainty and allow more informed decision making. While outside the scope of the transmission loss factors rule change proposal, we support in principle the rule change proposal to enhance the transparency of new projects as complementary to this rule change proposal. We also support AEMO's proposals to potentially publish more frequent guidance on MLFs and share its MLF model with "accredited" consultants. The CEC has been discussing these measures with AEMO in recent months. We appreciate AEMO's willingness to assist the clean energy industry to have better information before making investment decisions.

As already discussed with the AEMC, the CEC is commissioning independent technical advice on options for a transmission loss factors approach that best support timely and efficient investment and therefore the scale of the transition in Australia's energy sector. We will provide a supplementary submission that includes this advice in coming weeks.

³ CSIRO, GenCost 2018, December 2018. Available at: <https://www.csiro.au/en/News/News-releases/2018/Annual-update-finds-renewables-are-cheapest-new-build-power>.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact me on the details below.

Yours sincerely,

A handwritten signature in black ink that reads "Lillian Patterson". The signature is written in a cursive style with a large, prominent initial "L".

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