

INTRODUCTION AND SUMMARY

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined, EUAA members employ over 1 million Australians, pay billions in energy bills every year and are looking to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

We are of the view that Adani's proposed transmission loss factor rule changes potentially shifts considerable risk and costs to consumers. This outcome is at odds with a long-held EUAA position that seeks to ensure the risks and costs associated with energy markets are equitably shared amongst participants. We are also of the view that claimed benefits of increased generation locational efficiency are brought about through a more efficient wholesale market not this rule change.

These rule changes are being considered at the same time as two other significant proposals – the Coordination of Generation and Transmission Investment (CoGaTI) review and the rule change seeking improved transparency of new generation projects. The EUAA supports the general direction set out in the June 2019 CoGaTI Directions Paper and has made a submission supportive of the proposed rule change to increase transparency around renewable generation projects.

Given this context, the EUAA's does not support the proposed transmission loss factor rule changes because:

- Consumers have no influence over generator location decisions and hence generators are the best party to bear that risk; the proposed shifting of risk to consumers does not meet the AEMC's assessment framework as it does not contribute to achieving the National Electricity Objective
- The increased transparency of new projects rule change should significantly reduce short term uncertainty
- The longer-term issues of MLFs and renewable investment are best dealt with through the broader CoGaTI process rather than this specific MLF rule change, which may have unintended consequences given the likely CoGaTI reforms

We support the work of AEMO regarding improving market transparency around MLFs which is continuing without the need for rule changes.

IDENTIFYING THE PROBLEM

As the Consultation paper notes:

- New generators are tending to connect at the remote edges of the grid because that is where the good solar/wind resources tend to be
- This means the generation is some distance from the demand centres contributing to losses en route
- Many generators are seeking to connect at the same location with correlated rather than offsetting dispatch patterns
- These generators can be built relatively quickly

All these factors contribute to the unpredictability of MLFs which creates a risk for renewable generation developers.

Both rule change proposals seem designed to move risk that currently sits with renewable generators to consumers:

- Moving from the current situation of consumers receiving all the benefits of intra-regional settlement residues (IRSRs) in reduced TUOS charges, to one where consumers would only receive half the benefit with the other half going back to generators; so the applicant is asking consumers, who currently pay all TUOS charges, to give up 50% of the benefit of IRSRs to generators who pay no TUOS charges

- Using average rather than marginal MLFs to reduce the risk of MLF volatility; so the applicant is asking consumers to accept that AEMO should dispatch according to average rather than marginal loss factors when this seems contrary to the fundamental basis for the efficient operation of the spot market - the marginal MWh is provided by the most efficient generator

PROPOSED ASSESSMENT FRAMEWORK

The EUAA agrees with the proposed assessment framework. Efficient investment requires the calculated MLF values to send efficient signals for those considering investing in new generation or load.

The rule change proponent claims that as a result of implementing these rule changes:

- the electricity market will exhibit behaviour closer to that of a competitive market and lower prices will result, and
- with more accurate loss factors, new and existing financiers of generation investment will be more confident and will invest to provide greater supply of electricity.¹

We are not convinced of the former. We agree with the latter conceptually, but are not convinced that saddling consumers with additional costs and risks in this matter is consistent with the NEO.

Consumers have no role in generator locational decisions so we are not convinced that taking on what seems to be a large portion of that locational risk meets the NEO. Consumers already subsidise renewable generator location decisions though paying for the augmentation (shallow connection) costs of upgrading/reinforcing the existing grid to transport this generation to the load centre.

We agree with the Consultation paper where it says:

“In general, it is desirable that the party that is allocated a risk has the incentive and ability to manage that risk because there is a clear link between that party's actions on the outcomes of the risk. In the case of MLFs, there is a risk to transmission connected generators (and load) and market customers in regard to the value that will be calculated by AEMO at any time and that this value may change over time. However, these market participants may also be able to make decisions that impact on the value of the MLF allocated to them. For example, by decisions on where to locate a generator and how to allocate risk under their connection agreement. In contrast, end-use consumers are not able to influence or manage the risks.”²

Every business likes to offload its risks onto other parties and the more this is achieved, the more willing their financiers will be willing to fund new investment. Our members would very much like to offload their business risks to other parties and make their financiers (and equity holders) much happier. But EUAA members recognise that they operate in a competitive market (particularly those that export or are subject to import competition) and they have to consider all the risks associated with their investment decisions. They do not have consumers to bail them out of poor investment decisions.

We do not see the benefit to consumers from them effectively cross-subsidising the generator investment decision. Generators can choose to locate at a remote part of the grid because the wind or solar resource is better, but that should involve the generator and their financiers making an assessment of all risks.

Part of this assessment will be a trade-off based on efficient locational factors including MLFs (and associated risks) over the life of the proposed investment. Should the generator be located in a great solar resource where land is cheap but far away from the load? Or should the generator be located closer to the load where the resource may not be as good or the land more expensive? That is a decision that the generator needs to make based on efficient allocation of risk, not cross-subsidisation from consumers.

¹ Consultation Paper p.10

² Consultation Paper p. 12

IMPROVING THE LOSS FACTOR FRAMEWORK

Given the comprehensive nature of the three pieces of work currently underway between AEMC and AEMO relating to MLFs, we support these being allowed to proceed without the complications of a MLF rule change as proposed. The EUAA also supports the general direction set out in the June 2019 CoGaTI Directions Paper.

The EUAA made a submission supporting the three proposed rule changes designed to improve the level of transparency around information on potential new connections to the grid. The energy transition to lower carbon generation is happening quickly and networks and AEMO need to have the necessary levers to ensure efficient investment decision making to minimise the costs passed on to consumers.

Implementation of this rule change should enable new generation developers and their financiers to make more informed decisions on likely MLFs, at least in the first few years of their proposed investment. This is a good example of the principle that MLF risk is best handled by the generation proponents having access to better information than seeking to get consumers to bear part of the costs in the location decision that have no influence over.

We support the current approach of both intra-regional and inter-regional MLFs being marginal, not average. We believe this provides consistency with the current NEM dispatch process.

We do not support any change in the current allocation of intra-regional settlement residues only to market customers. The Consultation Paper seeks comments on a range of technical issues eg multiple loss factors, how often the loss factors should be calculated and so on. The EUAA approach to these matters is a general one applying the AEMC's proposed assessment framework. To the extent that these measures eg collar and cap and grandfathering result in a shifting of risk and cost from new generation developers to consumers, we do not support the proposal.

THE PARTICULAR SITUATION OF THE BERRI NODE IN SOUTH AUSTRALIA

Finally, we would like to raise and support a unique issue that one of our members, Central Irrigation Trust (CIT), has in relation to volatility of MLFs created by interconnector (Inter Regional) flows. They have made a separate submission to the AEMC outlining their position at the Berri node, which is the terminus for the Murraylink interconnector in South Australia. They are exposed to considerable risks around changing MLFs that have varied between -6.21% in 2017 to 12.77% for 2019. In 2019 there is a difference of 22% between the Red Cliffs and Berri nodes, the two termini for Murraylink. There cannot be 22% losses in less than 150 kms of transmission line.

In their submission, CIT describe four solutions that have been discussed with AEMO. We would support their preferred solution of establishing another node which is the terminus node and then apportioning the losses across South Australia.

Sincerely,



Andrew Richards
Chief Executive Officer