



18 July 2019

Mr Andrew Splatt
Adviser
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Splatt

National Electricity Amendment (Transmission Loss Factors) Rule

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex) appreciate the opportunity to provide a submission to the Australian Energy Market Commission (AEMC) in response to the *National Electricity Amendment (Transmission Loss Factors) Rule* consultation.

Ergon Energy and Energex acknowledge the significance of Marginal Loss Factors (MLFs) to the generation sector in terms of signalling generator market entry / exit, and generator location; and to network businesses for network planning purposes. We also acknowledge that intra-regional settlements have, since the National Electricity Market (NEM) commenced, been passed to customers via a reduction in Transmission Use-of System (TUoS) charges. With the increasing number of new generators connecting to the NEM, the change in the generation mix, and recent variability in MLF forecasts, we agree that it is appropriate to review both frameworks to ensure they remain fit for purpose for both customers and service providers. However, Ergon Energy and Energex only support those rule changes which are transparent and in the interest of customers, and we question whether the two rule changes as proposed satisfy these criteria.

We note that a change to the MLF framework has the potential to influence the number of generators connecting to distribution networks, with the potential to move generation projects from distribution networks to transmission networks (and vice versa). It is our view that modelling undertaken to consider the impacts of changes to the MLF framework should equally consider the flow-on effects to Distribution Network Service Providers.

However, our real concern is with the rule change proposal to redirect settlement residues away from TUoS charges and to commercial generators which, in our view, removes pricing transparency and is not in the interest of customers. While we acknowledge the argument that the reimbursement of settlement residues to a generator will be reflected in an equivalent reduction in wholesale prices, we suggest there is no

obligation on generators to pass through the full effect of the settlement residue received. Instead, and in our view, the rule change will result in customers paying higher prices as the full effect of the intra-regional settlement residue will not flow to customers and TUoS charges will increase. This outcome has flow-on effects for distribution networks in what customers will perceive as an increase in network pricing. The alternative is that generators offset the increase in network prices by contributing to network costs through the payment of Use-of-System charges.

In response to the AEMC's invitation to provide comment, Ergon Energy and Energex also provide responses to the questions raised in the Consultation Paper in the attached table.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact myself or Andrea Wold on (07) 3664 4970.

Yours sincerely



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Encl: Joint Ergon Energy / Energex submission

AEMC Question

Ergon Energy and Energex Response

QUESTION 1: IDENTIFYING THE PROBLEM

(a) Do you agree with the problems identified by Adani Renewables in relation to:

- The current distribution of the IRSR to market customers only.
- That the current marginal loss factor methodology produces "inaccurate" results?

- *The current distribution of the IRSR to market customers only*

If the Intra-Regional Settlement Residue (IRSR) rule is changed so that generators receive a portion of IRSR, then we suggest that generators should be charged Use of System charges.

- *That the current marginal loss factor methodology produces "inaccurate" results?*

Any proposed methodology that predicts future marginal loss factors (MLFs) will also be an estimate meaning any implemented proposal could be construed as "inaccurate". In our view, the questions should be:

1. will the new methodology be more accurate and less prone to flaws than the existing methodology; and
2. does the new methodology deliver a standard of accuracy that is acceptable?

Page 10 of the Consultation Paper provides, "*In addition, the rapid pace of these investments has added to the difficulty for some market participants to accurately forecast MLFs and their impact.*" In our view, such a statement implies that once the pace of new connections abates, the accuracy of the MLF forecasts should return to normal suggesting current problems with the methodology will resolve themselves.

As the NEM applies static MLFs intra-regionally, in reality embedded generators and load customers have a static average which in five-minute pricing intervals and the National Electricity Market Dispatch Engine (NEMDE) of especially windfarms, does not allow for accuracy.

AEMC Question	Ergon Energy and Energex Response
(b) Do these problems have a material impact on the long-term interest of consumers?	<p>As noted in the consultation paper, the rule change will result in more risk being taken by those who are least able to mitigate it, and less risk by those who can.</p> <p>In our view, the Australian Energy Market Operator (AEMO) should review differences between static and dynamic (real- time) models of IRSR from both the consumer and generator perspective to determine the outcome which best serves the long-term interest of customers. In terms of real-time models, AEMO should explore options with nodal prices, calculating MLFs within the transmission system and price signals in the NEMDE.</p>
(c) Do you have other concerns (not identified by Adani Renewables) about the operation and impact of the transmission loss factor framework?	<p>In addition to our comments provided to question 1(b) above, we provide the following:</p> <ul style="list-style-type: none"> • There appears to be no definitive description of the average loss factor methodology in the Adani Renewable rule change proposal; and • Adani Renewables suggests <i>“By formula, Marginal Cost Pricing methods (using MLFs) are equal to twice the real average loss factors. This means there is always an over-collection of loss revenues (leading to high IRSRs). By applying a scaling down MLFs by a constant shift factor (averaging), the over-collection of lost revenues (IRSRs) would not occur and the correct incentive for efficient generation would be preserved.”</i> In our view, if there is no over-collection as a result of the change to averaging of MLFs, then there is no need to include the generators in the disbursement of IRSR.
QUESTION 2: PROPOSED ASSESSMENT FRAMEWORK	
(a) Do stakeholders agree with the proposed assessment framework?	We provide no comment.

AEMC Question	Ergon Energy and Energex Response
<p>(b) Are there any additional considerations that the Commission should take into account?</p>	<p><i>Interaction between Transmission and Distribution Network Providers</i></p> <p>Changes to the MLF and IRSR frameworks could result in impacts between Transmission and Distribution Network Service Providers including changes to current business arrangements and demand and loss calculations.</p> <p><i>Impact upon sub-transmission/distribution networks</i></p> <p>While the consultation is focused at the transmission level there are potential consequences for the sub-transmission and distribution networks. As generation customers also reside upon the sub-transmission network, they will look to apply similar changes to the MLF methodology to their connection. For consistency and uniformity in the network frameworks, we question whether changes will need to be subsequently applied to all networks.</p> <p><i>Distribution Loss Factor (DLF) Modelling</i></p> <p>We question the flow on effects of the rule change including:</p> <ul style="list-style-type: none"> • Whether the AER will require additional reporting from DNSPs in implementing a new average loss factor methodology; • Whether DNSPs will need to re-examine how the diversity factor is determined and applied across connection points; • How new embedded customers are impacted, especially as their load demand grows or becomes erratic over time; and • Whether DNSP modelling practices need to be expanded, to calculate MLFs for all substations as opposed to the current practice of applying a known sample across the network?

AEMC Question	Ergon Energy and Energen Response
QUESTION 3: CHANGING THE TRANSMISSION LOSS FACTOR FRAMEWORK	
<p>What improvements do you suggest could be made to elements of the transmission loss factor framework and why? In particular with reference to:</p> <p>(a) calculating transmission loss factors on a marginal or average basis</p>	<p>Further investigation is required to examine / compare loss factor scenarios using marginal and average basis techniques.</p> <p>For an averaging methodology, we require further detail on the technical data to be used to calculate the loss factors.</p>
<p>(b) allocating intra-regional settlements residues</p>	<p>We provide no comment.</p>
<p>(c) the frequency of calculating MLFs</p>	<p>We provide no comment.</p>
<p>(d) the notice period provided to market participants</p>	<p>We provide no comment.</p>
<p>(e) whether a forward-looking or backward-looking methodology should be used</p>	<p>Any decision will need to consider the age of the generator and its operating profile.</p>
<p>(f) if a collar and cap should be applied to transmission loss factors</p>	<p>We provide no comment.</p>