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Australian Energy Market Commission

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National Electricity Amendment (Transmission Loss Factors) Rule Consultation Paper

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group) thanks the Australian Energy Market Commission (the AEMC) for the opportunity to provide comments in response to the National Electricity Amendment (Transmission Loss Factors) Rule Consultation Paper (the Paper).

Background on the MEA Group

MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia, followed by the Mt Mercer Wind Farm in Victoria. In early 2018 we acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation. We have supplemented our asset portfolio by entering into a number of power purchase agreements with other renewable generators, and through this investment in new generation we have continued to support Australia's transition to renewable energy.

Powershop is an innovative retailer committed to providing lower prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

Please find below our responses to the questions raised in the Paper.

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

MEA Group accepts that the current intra-regional loss factor (MLF) regime inherently leads to inaccuracies that do not reflect the actual electrical losses experienced by some generators between its transmission node and the Regional Reference Node. The shortcomings of the current methodology have been exposed by the significant influx of geographically distributed renewable generators at the fringe of the grid over a short space of time. These inaccuracies result in sporadic but significant amounts of intra-regional settlement residues (IRSRs) being paid to the Transmission Network Service Provider (TNSP), to reduce Transmission Use of System (TUOS) charges that are ultimately paid by electricity customers.

The effect of reallocating 50% of these IRSRs to generators thereby mitigating some of the 'cost' associated with the inaccurate MLF calculations is supported by MEA Group on the basis that it is expected to provide the generator with an effective hedge against a low MLF, resulting in a higher participation factor for that generator. Sequentially this would be expected to lead to lower overall wholesale prices for generators across the NEM, hence lower electricity costs for customers.

MEA Group is also of the view that whilst it may contain inaccuracies, the current MLF regime continues to provide a clear locational signal to generators for those areas of the transmission system that are less optimal for the installation of utility scale generation.

- that the current marginal loss factor methodology produces "inaccurate" results

The current MLF regime is a forward looking estimate of the average marginal loss associated with each transmission node in the National Electricity Market (NEM), based on a set of inputs and assumptions at a single point in time. Historically this methodology has been successful due to the relatively stable transmission and generation investment environment over the previous 20 year lifespan of the NEM.

However due to the significant increase in renewable generation investment in the NEM and an annually calculated MLF, large MLF variances have been observed from one year to the next. Marginal pricing and the current MLF methodology is a fundamental element of the NEM and is the correct basis for the efficient operation and setting of investment price signals.

The 'inaccurate results' are a result of the forecast inputs generation and load assumptions that have been used in the forward looking periods. MEA Group suggest that improvement to the current regime should focus on timing, how often MLF's are calculated and the possible introduction of applying MLF's for different periods (e.g. Peak and Off-Peak periods) and improvements to the forecast assumptions.

(b) Do these problems have a material impact on the long-term interest of consumers?

MEA Group is of the view that whilst there are inaccuracies associated with the current MLF calculation methodology that leads to IRSR, it is not of a material impact to consumers. On balance we expect the benefits associated with the provision of a clear locational signal (the current MLF regime) to generators outweighs the costs associated with the inaccuracies of the current regime.

(c) Do you have other concerns (not identified by Adani Renewables) about the operation and impact of the transmission loss factor framework?

The current MLF regime (like most aspects of the NEM) was established at a time when the ecosystem of the NEM looked very different to today. Similar to many aspects of the NEM, the MLF regime would likely benefit from change to ensure it remains fit for purpose in today's distributed, renewable centric grid. Nevertheless MEA Group believes the MLF regime is a necessary and vital component of the current regulatory framework, ensuring that a clear and strong locational signal be provided to generators on where to locate utility scale generation projects.

One such potential change to the existing framework MEA Group would encourage the AEMC and AEMO to review is the frequency with which the MLF is calculated and published given the speed with which new renewable energy projects are coming on line. MEA Group would support a quarterly MLF figure being published.

Connected to this is the proposed rule change with respect to the transparency of new projects – publishing on a frequent and consistent basis the projects that are sitting within a connection "queue" with various TNSPs. This rule change would help generators forecast potential MLFs over the medium to long term and make more considered investment decisions with respect to their generation portfolio.

QUESTION 2: PROPOSED ASSESSMENT FRAMEWORK

(a) Do stakeholders agree with the proposed assessment framework?

MEA supports the AEMC's approach to assessing MLF changes against the National Electricity Objective considering efficient investment, efficient operation and allocation of risk.

(b) Are there any additional considerations that the Commission should take into account?

MEA Group would encourage the AEMC to adopt a 'light touch' approach to this rule change request in consideration of the significant reform proposed over the coming years, which includes the review of the Cost of Generation and Transmission Investment and the Energy Security Board's ongoing review of the energy market design post 2025.

Either or both of these reviews are likely to result in changes to the way MLFs are calculated or no longer required, should the market adopt for example a nodal pricing system, hence a lighter approach would help avoid impacting the more significant reform work likely to take place.

QUESTION 3: CHANGING THE TRANSMISSION LOSS FACTOR FRAMEWORK

What improvements do you suggest could be made to elements of the transmission loss factor framework and why? In particular with reference to:

(a) calculating transmission loss factors on a marginal or average basis

MEA Group believes the calculation of a marginal loss factor continues to be the most closely aligned calculation with respect to the power system characteristics. MEA Group believes further work is required in respect of the inputs and assumptions that are made as part of the calculation methodology, which include but are not limited to the:

- assumptions on forecast generation entering the system over the forecast period (12 months);
- treatment of the Basslink interconnector whose flows are assumed to be unchanged from the reference year;
- application of the minimal extrapolation principle to restore the supply-demand balance and the way it treats interconnector limits; and
- failure to reflect any substantial change in forecast generation (e.g. loss of a major transformer interconnector).

(b) allocating intra-regional settlements residues

As noted above MEA Group supports the Adani Renewables proposal to reallocate 50% of the IRSRs.

(c) the frequency of calculating MLFs

MEA Group supports a more frequent calculation and publishing of the MLF for each transmission node. MEA Group also supports quarterly publishing of the MLFs for each transmission node. We believe this achieves the right balance between shorter build times, therefore a higher influx of renewable generators into the system, and an appropriate workload for AEMO to administer.

(d) the notice period provided to market participants

MEA Group supports the continuation of a 3 month notice period noting this would continue to be the case if a quarterly publication of the MLF values was adopted.

(e) whether a forward-looking or backward-looking methodology should be used

MEA Group continues to support a forward looking MLF as it provides generators with certainty of their MLF allowing them to better manage their revenue risk year on year.

(f) if a collar and cap should be applied to transmission loss factors

MEA Group believes this proposal ultimately has the potential to distort the locational signal of the MLF value calculated at each transmission node. On that basis MEA Group does not support the introduction of a collar and cap regime to limit the up or downside of changes in the MLF from year to year (or whichever frequency is ultimately adopted by the AEMC).

(g) if grandfathering MLFs should occur.

We would not support a grandfathering MLF regime as we expect it would less accurately reflect the actual power flows within the system year on year.

If you would like to discuss any aspect of this submission please do not hesitate to contact me.

Yours sincerely

A handwritten signature in blue ink that reads "Angus Holcombe". The signature is written in a cursive style with a large initial 'A'.

Angus Holcombe
Head of Asset Development
Meridian Energy Australia
Powershop Australia Pty Ltd