

21 November 2019

Mr John Pierce AO
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged Via AEMC Website

Dear Mr Pierce,

NATIONAL ELECTRICITY AMENDMENT (TRANSMISSION LOSS FACTORS) RULE (ERC0251)

John Laing is a global infrastructure investor with a portfolio that includes investments in eight renewable energy projects in the National Electricity Market (NEM). Importantly, John Laing has recently entered into a Memorandum of Understanding (MOU) with a group of 20 institutional clean energy investors (the "Clean Energy Investor Group") to develop this submission. John Laing made a submission on the AEMC Transmission Loss Factors consultation paper (ERC0251) on behalf of the Clean Energy Investor Group (CEIG).

The CEIG represents a significant stakeholder group

The CEIG, which collaborated to identify alternatives for the treatment of electrical losses on the transmission network, represents 72 power stations over 6,500MW of generation investment in the NEM and a future development pipeline in excess of 10,100MW. When viewed in the context of the requirement for 54GW of new capacity in the NEM by 2040¹, it is likely that a sizeable portion of the new generation capacity to enable this transition to renewable energy will be developed and funded by the Investor Group.

AEMC Draft Determination

John Laing has reviewed the Draft Rule Determination NATIONAL ELECTRICITY AMENDMENT (TRANSMISSION LOSS FACTORS) RULE 2020 (Draft Determination) published by the AEMC on Thursday 14 November. John Laing and the CEIG are concerned that the AEMC's analysis and subsequent draft rule has not adequately considered the National Electricity Objectives. There are a number of shortcomings in the Draft Determination published by the AEMC including but not limited to:

- **Coordination of Generation and Transmission Investment (COGATI):** The AEMC statement that:
"the COGATI review represents the most appropriate forum to engage in assessing potential reforms that may be able to provide a long-term solution to stakeholders' concerns regarding the transmission loss factor framework"

fails to acknowledge the fundamental issues identified in the stakeholder feedback on the recent COGATI discussion papers. Deferring the required reform of the loss factor framework to the incomplete and highly uncertain COGATI process is an unnecessary risk given the no regrets nature of the proposed Average Loss Factor (ALF) framework.

- **Efficient Investment:** The AEMC statement on the ALF framework:
"It may also lead to more generation investment in inefficient locations, increasing physical transmission losses further. This would, in the long-run, be likely to lead to higher electricity costs for consumers."

Fails to acknowledge that loss factors are only one consideration when determining the efficient location for generation investment. The reliance on an increasingly volatile single year MLF ignores the importance of the availability of land, development approvals and

¹ AEMO 2018 Integrated System Plan

resource in determining the optimal location for new investment. The disproportionate weighting given to the MLF as a locational signal is inconsistent with the principles of the Integrated System Plan (ISP) and the Renewable Energy Zone (REZ) framework which has identified the locations for future generation investment.

In addition to the points listed above the robustness of the AEMC's conclusion is severely limited by the absence of any analysis to support or quantify what is otherwise an arbitrary statement with no regard to the NEM and the energy transition.

- **Operational Efficiency:** The AEMC statement on the ALF framework:

The use of an average loss factor may change the merit order to dispatch generators, resulting in less efficient use of the generation fleet and reducing the efficient operation of the NEM in real time. This may have the effect of wholesale electricity prices being higher than they would using MLFs.

Again the AEMC has failed to provide analysis to support or quantify their statement. The AEMC has dismissed the conclusions of a comprehensive report supported by detailed modelling undertaken by Baringa Partners instead relying on a chart reflecting a stylised example. This stylised example fails to recognise the zero marginal cost of renewable energy generators which are most likely to experience lower loss factors. This approach and level of analysis is not commensurate with the importance of the issue under consideration.

- **Investor Uncertainty and Risk Allocation:** The AEMC was provided extensive evidence and analysis through the consultation process and stakeholder submissions on the impact of the current MLF framework on investor uncertainty and implications for customer electricity costs. These issues are now evident in the market as noted by the c.95% year on year reduction in new projects considered by the Australian Energy Market Operator (AEMO) in its recent publication of Indicative 2020-21 MLF values. There is also increasing anecdotal evidence of higher PPA prices reversing a 5 year trend of PPA price reductions.

The comments on various components on the Weighted Average Cost of Capital (WACC) demonstrate a limited understanding of capital markets and the decision making process for new generation investment. To fully assess the implications of the current loss factor framework the AEMC analysis must consider the impact of the increased investor uncertainty and reduced competition on long-term customer outcomes.

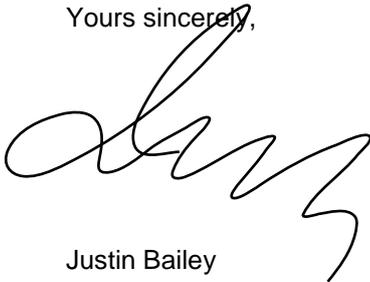
The AEMC's focus on risk allocation as a zero sum game limited to transfers between investors and customers is flawed. The AEMC have the ability to reduce and remove unnecessary risks emerging from the market design that creates both a more stable investment environment and improved long-term customer outcomes.

John Laing believe the AEMC has failed to undertake the analysis required to support its conclusions while at the same time ignoring or discounting evidence and analysis presented by stakeholders on the merit of a change to an ALF framework.

John Laing and the CEIG request a pre-determination hearing to resolve these issues with the AEMC to ensure the rule change proposal is assessed in a transparent and robust manner before making a final determination.

Please do not hesitate to contact me should you have any queries.

Yours sincerely,



Justin Bailey

Regional Managing Director - Asia Pacific

Attorney for John Laing Investments Limited