

16 January 2020

Mr John Pierce
Chair
Australian Energy Market Commission
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Dear Mr Pierce

Transmission loss factors draft determination – AEMO Submission

AEMO welcomes the opportunity to contribute to the Commission’s draft determination on the rule change requests submitted by Adani Renewables relating to the transmission loss factor (MLF) framework.

As indicated in our submission to the Commission’s consultation paper:

- AEMO supports locational price signals as an important contributor to an efficient spot market, while recognising the need for sufficient investment certainty to support efficient development decisions.
- The Integrated System Plan provides valuable information on the impact of additional generation on MLFs to assist potential connecting parties with their investment decisions.
- AEMO is making changes to our loss factor calculation process (within the current methodology and guidelines) to improve transparency and replicability of the calculation to provide investors with a better indication of any future MLF.

AEMO supports the AEMC’s draft decision to maintain the existing approach to calculating marginal loss factors and allocating intra-regional settlement residues, particularly noting that:

- Developing and implementing any fundamental change to the MLF regime independent of the ESB’s market reform work programs in their NEM 2025 process would be both disruptive and inconsistent with an approach that allows the treatment of losses in the NEM to be considered holistically in the context of overall future market design.
- Any over recovery resulting from the application of loss factor calculations under the existing approach is effectively allocated via intra-regional settlement residues for the benefit of customers who pay for transmission investment in the first instance.

TRANSMISSION LOSS FACTORS DRAFT DECISION – AEMO SUBMISSION

We also acknowledge the Commission's draft amendments to the Rules to facilitate consultation on a broader range of improvements to the MLF methodology that could increase transparency and efficiency of the calculation process. We have reviewed these amendments and suggest a further change for clarification purposes, as outlined in the schedule to this submission.

AEMO Initiatives

AEMO has an extensive program of work to consult and make improvements to the MLF methodology and improve the flow of information to participants. AEMO has:

- Introduced more frequent publication of marginal loss factor values for information and transparency purposes. AEMO published the first quarterly indicative MLF report in November 2019. This report provides participants with information on key drivers of MLF changes for the 2020-21 MLF calculation along with a set of indicative MLFs. The next indicative publication is due in February 2020.
- Undertaken to review the MLF methodology in consultation with stakeholders to improve accuracy, efficiency and transparency of the MLF calculations. AEMO expects to formally commence this consultation following the publication of the 2020-21 MLFs in April 2020 and would also take into account the AEMC's final rule.
- AEMO is continuing to improve generation investment information through improvement to AEMO's Generation Information page. AEMO published Interim Generation Information Guidelines on 5 December 2019 and has now commenced the development of another set of Generation Information guidelines, via a full rules consultation procedure process. Information to be provided to assist generation investment decisions includes key connection information from TNSPs about connection applications and enquiries.

AEMO encourages all interested stakeholders to provide feedback on its quarterly reporting and actively engage in consultation on future improvements to the MLF methodology.

We welcome the opportunity to discuss our submission further with the Commission if needed. Should you have any questions on the matters raised in our submission, please contact Kevin Ly, Group Manager Regulation at kevin.ly@aemo.com.au.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

Schedule to AEMO submission – Draft Rule

The draft amendment to clause 3.6.2(e)(6) removes the requirement for flows in network elements providing market network services to be treated as invariant, but retains a statement to the effect that marginal losses within those elements need not be calculated.

AEMO requests that sub-paragraph (6) be deleted altogether. The principle as currently expressed in the rules arises as a result of the physical properties of controllable DC links, which effectively means there can never be any '*marginal electrical energy losses*' on those links. DC links only work on instructions, the instantaneous flow across the link does not vary in response to changes in demand or supply on either side. For that reason, the remaining statement in (6) is unnecessary and potentially misleading.

Further, these properties are not unique to network elements providing market network services. They are common to all HVDC links, irrespective of their regulatory status. Although originally market network services, Murraylink and Directlink are now regulated interconnectors but for MLF purposes are treated in exactly the same way as Basslink.

If the AEMC considers that sub-paragraph (6) cannot be deleted, it would therefore be necessary to both expand its application to all '*independently controllable two-terminal links*' and clarify the principle as an assumption that there are no *marginal electrical energy losses* within an *independently controllable two-terminal link*.