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To: The Australian Energy Market Commission ("AEMC")
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Infigen Energy Limited

Level 17, 56 Pitt Street
Sydney NSW 2000
Australia
T +61 2 8031 9900
F +61 2 9247 6086

www.infigenenergy.com

By website: ERC0251

Re: Response to ERC0251 Transmission Loss Factors Rule Change Draft Determination

Infigen Energy Limited (ASX:IFN) ("Infigen") welcomes the opportunity to make a submission. Infigen owns portfolio of wind and firming capacity across New South Wales, South Australia, Victoria and Western Australia. Our renewable portfolio includes 670 MW of vertically integrated wind plus c90 MW of contracted capacity in Victoria. Infigen also owns and operates a portfolio of dispatchable firming capacity including a 123 MW open cycle gas turbine in NSW, a 25 MW / 52 MWh battery in SA, and will soon take ownership of 120 MW of dual fuel peaking capacity in SA. Infigen has also bought Power Purchase Agreements (PPAs) from wind farms, and is seeking additional wind and solar PPAs. Our development pipeline has projects at differing stages of development covering wind, solar and dispatchable firming capacity.

1. OVERVIEW

Infigen supports the AEMC's draft determination.

We acknowledge that there have been unexpectedly large swings in MLFs, particularly for a small number of new projects, and that this is a material issue for some market participants. In our view, however, the industry should not seek to override the laws of physics and of economics to solve this problem. This is an asymmetric information and transparency issue, rather than a fundamental design problem, and, we believe that the AEMC should not seek to socialise losses.

We note that there has been an investment boom in the NEM with around \$20 billion in investment committed across 92 large-scale projects since July 2016¹. It is not unusual in commodity markets under cyclical boom conditions for some projects to

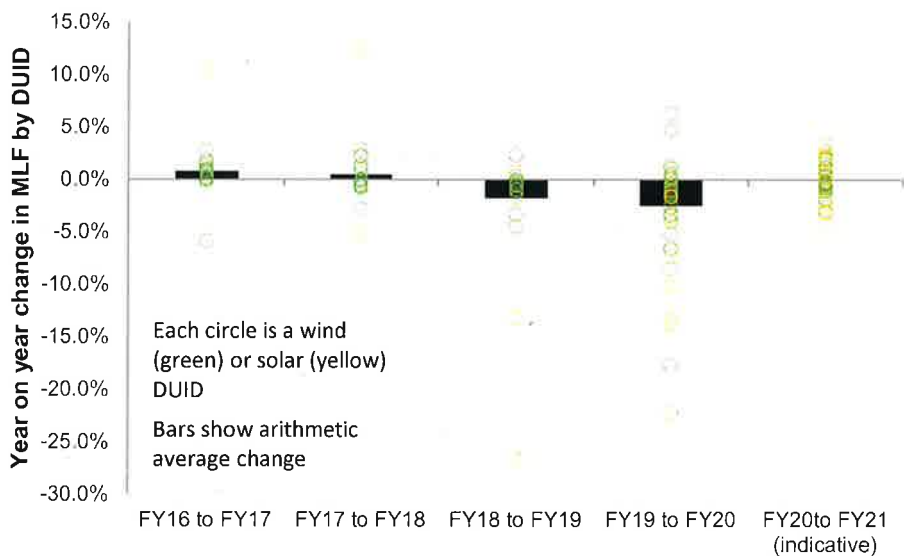
¹ Infigen analysis of BNEF data

be suboptimal (with the benefit of hindsight). However, it is not, in our opinion, appropriate to socialise losses. Infigen considers that, as a mature industry, industry participants and project developers are best placed to determine where projects should be built, and this involves accepting both upside and downside risks of investment commitment. Moving to average loss factors or other cap or collar arrangements would shift additional costs to consumers in at least the short- to medium-term, with any future benefits contingent on (uncertain & unquantifiable) reduced financing costs thought to offset reduced operational and investment efficiency signals.

The current MLF framework is not “perfect” (as can never be the case in the real world) but is the best approximation we have for describing marginal losses which balances the need for efficient dispatch without creating excessive volatility in hedge contract markets with respect to known volumes.

AEMO’s indicative 2020-21 MLFs² show variability returning to historical levels of variability, further reducing the need for any intervention at this time. Although significant new capacity will need to be developed over the next decade, we consider that addressing the lack of transparency and guiding information available to market participants, including the potential swings of MLFs and their sensitivity to new generation in the neighbouring areas or beyond, is the appropriate response at this time.

Figure 1 – Annual change in MLFs for wind and solar units



We support the AEMC’s proposed minor rule changes that will give AEMO more flexibility to deliver efficient MLF projections. Further analysis of alternatives such as

² [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security and Reliability/Loss Factors and Regional Boundaries/2019/Indicative-Marginal-Loss-Factors-2020-21-Financial-Year.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security%20and%20Reliability/Loss%20Factors%20and%20Regional%20Boundaries/2019/Indicative-Marginal-Loss-Factors-2020-21-Financial-Year.pdf)



peak and off-peak MLFs could be undertaken by AEMO on a back-looking basis to identify whether there are any material inefficiencies to be addressed.

As noted in our submission to the Discussion Paper, we consider that there is a further role for AEMO to provide greater information at each connection point including MLF sensitivities (e.g. impact of +200 MW of generation) and long-term MLF projections in the ISP. Requiring AEMO to develop relevant sensitivities would highlight high-sensitivity connection points and the modelling would not need to be done at the level of precision of AEMO's primary studies. These sensitivities could then be supplemented by AEMO's provision of indicative MLF service³, allowing participants to request customised, rapid, near-term studies.

More generally, Infigen considers that the open access framework of the NEM combined with a liquid market for forward contracts creates an efficient and investable market. The MLF framework, plus basic congestion studies, provides efficient and strong locational signals, and the contract market allows participants to price and manage risk.

We therefore do not support changes to the MLF framework, nor do we support the introduction of the COGATI frameworks that will clearly further disrupt the market and transfer risk from generators to consumers.

2. CONCLUSION

We look forward to the opportunity to continue to engage with the AEMC. If you would like to discuss this submission, please contact Dr Joel Gilmore (Regulator Affairs Manager) on joel.gilmore@infigenenergy.com or 0411 267 044.

Yours sincerely

Ross Rolfe
Managing Director

³ https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Loss_Factors_and_Regional_Boundaries/2018/Provision-of-Indicative-Marginal-Loss-Factors.pdf