



Level 34, 52 Martin Place, Sydney, NSW 2000
PO Box R1413, Royal Exchange NSW 1225 Australia
T +61 2 9347 3300 F +61 2 9347 3399
www.qic.com

QIC Limited ACN 130 539 123

16 January 2020

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 2020 (ERC0251)

QIC Global Infrastructure (“**QIC GI**”) welcomes the opportunity to make a submission to the Australian Energy Market Commission’s (“**AEMC**”) consultation in relation to the Draft Rule Determination made by the AEMC regarding the National Electricity Amendment (Transmission Loss Factors) Rule 2020 currently being considered by the AEMC (“the **Draft Determination**”).

QIC GI is a business division of QIC Limited (“**QIC**”), a leading investment manager with over A\$83bn in funds under management as at 31 December 2019. Established in 2006, QIC GI is one of Australia’s largest infrastructure investors. QIC GI is focused on both Australian and global infrastructure investments and since commencement of the infrastructure program, QIC GI has successfully invested over \$14.7bn of our clients’ infrastructure allocation into a global portfolio of 19 infrastructure investments across 12 geographies. QIC GI has a strong track record of providing long-term capital and supporting growth in Australia’s energy infrastructure, having made the following investments:

- Pacific Energy (2019);
- Powering Australian Renewables Fund (“**PARF**”) (2016);
- Lochard Energy (2015); and
- Epic Energy South Australia (2013).

QIC GI’s major clients are some of the largest sovereign wealth and superannuation funds, including 13 of Australia’s largest superannuation funds representing in excess of \$730 billion of capital. This includes the superannuation savings of a significant portion of Australian households and provides QIC GI with a unique insight into how this large pool of capital views investments in the Australian energy sector, and new generation in particular, relative to other investment opportunities.

These Australian clients are currently a significant source of investment capital in Australian energy infrastructure and critical to the ongoing transition of the Australian energy sector; it is important that this group of investors continue to choose to invest in the Australian energy sector.



QIC GI, on behalf of its clients, has committed A\$800m of equity capital to PARF, and as a result manages 80% of the equity interest in PARF. PARF, together with approximately 20 other major renewable energy investors representing in excess of 16GW in existing and new renewable generation investments, is a founding member of the Clean Energy Investment Group (“CEIG”).

In QIC GI’s submission to the National Electricity Amendment (Transmission Loss Factors) Rule Consultation Paper,¹ it was noted that there have been significant developments in the regulatory environment which have, in our view, increased uncertainty and therefore both reduced access to capital and increased the cost of capital for the Australian energy sector, especially for renewable energy. The extreme levels of volatility observed in Marginal Loss Factors (“MLFs”) applying to renewable energy projects in recent years is one such key development. Accordingly, QIC GI reiterates its support for the adoption of alternative loss factor methodologies, such as the Average Loss Factor (“ALF”) methodology. Quantitative modelling has demonstrated that the ALF methodology will produce Transmission Loss Factor (“TLFs”) estimates that are more stable and more robust, without adding undue volatility and complexity, which in turn will contribute to the achievement of the National Electricity Objective (“NEO”).

Further, QIC GI supports the views expressed by PARF and the CEIG in their respective submissions to the Draft Determination consultation process. In particular, QIC GI notes that:

- **Increased uncertainty driven by the more volatile MLFs is having an immediate and adverse material impact on new renewables investment:** The current levels of MLF volatility and regulatory uncertainty are having an immediate detrimental impact on the Australian energy market and investor appetite. This is evidenced by the c.95% year-on-year reduction in new projects (by c.4,350MW capacity) being considered by the Australian Energy Market Operator (“AEMO”).² The reduction in new renewable projects, and dearth of new capital available for new renewable projects, is impacting the market this is occurring at precisely the time when significant further investment is required to replace an ageing thermal fleet and secure Australia’s future renewable energy supply, with AEMO estimating c.30-50GW of new grid-scale renewables capacity being required by 2040.³

We can confirm that on a relative basis, renewables investments in Australia are now considered a higher risk option when compared with other infrastructure investments. This increase in risk, due to higher cashflow volatility and lower regulatory certainty, is directly increasing the cost of equity capital and reducing the availability of debt capital, which is also increasing given the perception of higher default risk. This has resulted in a significantly higher combined cost of capital applicable to new renewable projects now than when QIC GI established PARF in 2016. This is despite the significant decrease in base rates over the same period.

- **The AEMC should have regard to both quantitative and qualitative analyses:** QIC GI strongly encourages the AEMC to continue to engage constructively with stakeholders with respect to undertaking analysis to qualify and support its Draft Determination findings in relation to the location signalling impact and dispatch order impacts of a change to ALFs. With the NEM growing increasingly complex, correctly determining the relative merits and disadvantages of different loss factor methodologies is similarly challenging without a robust and transparent quantitative and qualitative assessment framework. QIC GI reiterates the points noted by the PARF and CEIG submissions to the Draft Determination and in particular to the analysis prepared by Baringa Partners noted in those submissions.⁴ Specifically, we note that the location signalling that AEMC values with the MLF

¹ QIC Submission on Transmission Loss Factors Rule Change (Ref: ERC0251), 18 July 2019.

² From 151MW capacity across two new committed generation projects in 2020-21FY vs. 4,300MW capacity across 46 new projects in 2019-20. AEMO, Indicative Marginal Loss Factors: FY2020-21, November 2019, 36.

³ AEMO 2019 Draft 2020 Integrated System Plan, 10.

⁴ Baringa Partners, Transmission Loss Factors input to CEC Response to AEMC Consultation on Transmission Loss Factors (ERC-251), August 2019.



methodology is actually preserved under an ALF methodology which simultaneously would reduce the volatility that is causing significant adverse impacts for investors. Further, we note that TLFs are but one consideration when investors decide where to locate a project and, with respect to operational efficiency impacts, that a transition to renewables will ultimately and necessarily result in changes to the dispatch order.

- **ALF provides a no-regrets interim solution whilst further changes are considered:** On 19 December 2019, the AEMC advised the market through its Coordination of Generation and Transmission Investment (“**COGATI**”) Update Paper of its intention to delay implementation of any COGATI related changes for four years post rule change approval. A further four or five years of MLF volatility will materially contribute to (1) further deterioration in investor confidence with consequential delays to, or removal of, new generation developments which are critically required to support the ongoing transition of the NEM; (2) will continue to place upward pressure on the cost of energy ultimately paid for by consumers due to the ongoing increase in cost of both debt and equity capital; and (3) impede achievement of Australia’s emission reduction targets. QIC GI believes the adoption of an alternative methodology such as ALF in the interim should be pursued through the existing rule change process, and not be contingent on any COGATI outcomes. Further, because the ALF methodology preserves the location signalling impact of the MLF methodology, the change to an ALF methodology provides a no-regrets solution to the current issues.

As a major investor in Australian infrastructure and the Australian energy sector in particular, we are highly supportive of the AEMC taking timely action to implement the ALF methodology and rectify the issues outlined in this, and prior submissions. This will contribute to the restoration of investor confidence in the Australian renewable energy market, and therefore to the achievement of the NEO.

We would welcome the opportunity to discuss this submission with you; further to this end please do not hesitate to contact us.

Yours sincerely

A handwritten signature in black ink that reads 'Ross Israel'.

Ross Israel
Head of Global Infrastructure
E: r.israel@qic.com

A handwritten signature in blue ink that reads 'Angela Karl'.

Angela Karl
Partner
E: a.karl@qic.com