Government of South Australia
Department for Energy and Mining

Record No. D19070078

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17 July 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce,

RE: ERC0251 – CONSULTATION PAPER – NATIONAL ELECTRICITY AMENDMENT (TRANSMISSION LOSS FACTORS) RULE

The Energy and Technical Regulation Division ('Division') of the Department for Energy and Mining thank you for the opportunity to make a submission on the *National Electricity Amendment (Transmission Loss Factors) Rule* consultation paper, which was issued by the Australian Energy Market Commission (AEMC) on 6 June 2019.

The Division supports the AEMC's consideration of broader issues around how the transmission loss factor framework can continue to send the most appropriate investment signals to the industry as the power system continues to change. This will support the next phase of the energy decarbonisation occurring within the National Electricity Market (NEM), ensuring it is orderly, delivers social and economic benefits to households and businesses and creates a reliable, affordable and secure energy supply.

The Division has considered the two Adani Renewables rule change requests, which were submitted on 27 November 2018 and 5 February 2019.

Intra-Regional Settlement Residue Reallocation Rule Change Request

Regarding the *Intra-Regional Settlement Residue Reallocation Rule Change Request,* the Division does not support the proposed change to the way in which the intra-regional settlement residue (IRSR) is allocated.

Adani Renewables concerns stem from increased difficulty in forecasting Marginal Loss Factors (MLFs), which they indicated is evidenced in growing IRSR. They consider receiving a contribution of the IRSR would result in lower, more effective MLFs for generators and therefore more competitive bidding and lower prices for customers.

The Division notes that if more competitive bidding fails to emerge, then consumer costs may actually increase as their Transmission Use of System (TUoS) charges would be higher (as the Transmission Network Service Provider (TNSP) has less IRSR to off-set TUoS charges).

The Division does not consider that changes to IRSR is the most efficient way of addressing Adani Renewables concerns. The AEMC's attention should be on Rules

associated with the calculation of MLFs and ensuring they are fit for purpose in the rapidly transitioning energy market environment.

It is therefore the position of the Division that continuing to offset the TUoS charges by allocating the IRSR to the Transmission Network Service Provider (TNSP) for allocation to customers on a postage-stamp basis achieves the National Electricity Objective (NEO).

Loss Factors Framework Rule Change Request

Regarding the *Loss Factor Frameworks Rule Change Request,* the Division is not convinced that the Adani Renewables rule change request to change the MLF framework from a forward-looking loss factor (FLLF) methodology to an average loss factor (ALF) methodology addresses the current problems being experienced with the MLF framework.

The Division recognises the challenges and concerns being encountered with the existing MLF framework and FLLF methodology, in particular the challenge of applying the forward-looking methodology with such a rapid uptake of renewable generation occurring. However, adopting an average-based methodology and ALF would reduce locational signals and socialise network costs across the customer base.

The Division notes that the outputs of the AEMC's *Coordination of Generation and transmission Investment Implementation (CoGaTI)* review and particularly the *Transparency of New Projects* Rule may have the potential to improve MLFs by (amongst other things) increasing the data and information available. Specifically, the increased transparency of new projects and the increased information available to developers and existing generators.

Of particular note in the CoGaTI review is the AEMC's proposal to implement dynamic regional pricing (in July 2022) where generators would receive the locational marginal price at the connection point for their dispatched output, rather than the regional reference price (RRP). The Division considers that to implement locational marginal pricing, dynamic MLFs may be required for each connection point. As a result, the MLF framework and FLLF methodology would require substantial change and revision to support the CoGaTI recommendations.

The Division does not, however, consider that addressing the challenges and concerns being currently encountered can be delayed until 2022. The AEMC should consider interim amendments to the Rules. Options the AEMC could consider include:

- strengthening the existing provisions by providing more data and information to the Australian Energy Market Operator (AEMO) and stakeholders; and
- bi-annual (or more frequent) MLFs being calculated by AEMO, which would provide additional information to the market and reflect the ongoing changes occurring in the NEM.

The Division also notes that connection points located either side of an interconnector can experience significantly volatile MLFs under the existing frameworks. This will significantly impact consumers located in these areas and such volatility may not be in the long-term interests of consumers. The AEMC should consider mechanisms that could smooth the impacts of volatile MLFs for these connection points. One option that has been raised to the Division is South Australia's Virtual Transmission Node (VTN). The Division notes this is for small customers only for postage-stamp pricing purposes.

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Thank you for accepting our submission. Should you wish to discuss this further, please contact me on (08) 8429 3185 or Rebecca.Knights@sa.gov.au.

Yours sincerely,

Rebecca Knights
A/Executive Director
Energy and Technical Regulation
Department for Energy and Mining
17 July 2019