

15 January 2020

John Pierce  
Chairman  
Australian Energy Market Commission

Lodged online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce,

### **AEMC: TRANSMISSION LOSS FACTORS DRAFT DETERMINATION**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments to the AEMC on the transmission loss factors draft determination.

Origin broadly supports the Commission's draft determination. The draft rules ensure that:

- The loss factors calculation remains aligned with how energy is priced in the NEM, i.e. on a marginal basis.
- Consumers continue to get the benefit of excess settlement residues, which is appropriate given that they pay for transmission.
- The loss factors calculation is flexible within the constraint of a marginal framework.

While concerns around the variability and predictability of marginal loss factors (MLFs) are likely to remain, Origin cautions against rushing into further changes without first testing the effectiveness of the transparency of new projects final rule.<sup>1</sup>

### **Average loss factors (ALFs) are inconsistent with marginal pricing**

We support the Commission's draft decision to not implement ALFs and to retain the existing MLF framework instead. We agree with the Commission that ALFs:

- Are inconsistent with the concept of marginal pricing and could result in inefficient dispatch of generation.
- Would dampen locational signals, leading to inefficient locational decisions.

Further, depending on which ALF methodology is used, intra-regional settlement residues (IRSRs) could fall and could even be negative. Since IRSRs are distributed to consumers through offsets of transmission charges, lower IRSRs would mean higher transmission charges due to reduced offsets.

While ALFs would help reduce volatility, which may lead to lower capital costs for some new generation assets, due to the issues mentioned above, we continue to oppose a move to ALFs. On balance, we consider that the benefits would not outweigh the costs and distortionary effects of moving away from a marginal framework.

### **The arrangements for the allocation of IRSRs remain appropriate**

We also support the Commission's decision to not re-allocate IRSRs to both consumers and generators. Given that transmission is funded by consumers, it is appropriate for any over-recovery of IRSRs to be allocated to those that paid for augmentation in the first place.

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<sup>1</sup> AEMC, Transparency of New Projects, Rule determination, 24 October 2019, available at <https://www.aemc.gov.au/rule-changes/transparency-new-projects>

## **Consultation on the methodology is welcome**

It is important to ensure that the MLF methodology remains fit for purpose. Origin supports the changes proposed in the draft rules aimed at making the MLF calculations simpler and more flexible. Origin welcomes working with AEMO to identify potential improvements and ensure that the changes are robust.

## **Problem identification remains important**

There are likely to be ongoing concerns around the variability and predictability of MLFs given the impact that these have on certainty. However, we caution against rushing into any further changes to the transmission loss factors framework without first having a clear understanding of the underlying causes.

In our submission to the consultation paper, we stated that the lack of transparency around generation projects in the pipeline could be leading to sub-optimal locational decisions. Since then, the Commission has made a final rule to improve the transparency of new projects.

We consider that it would be premature for the Commission to consider any further changes to the transmission loss factors framework without first testing the effectiveness of the transparency of new projects final rule, at a minimum. The final rule is likely to go some way in addressing transparency and information flow issues, which should promote more efficient locational decisions and reduce variability in MLFs.

We suggest that the AEMC should monitor the impact of the transparency of new projects final rule, including by:

- Assessing the uptake by project developers of the additional information that they can now access, and the effectiveness of this information in helping them to develop their assets.
- Surveying project developers and generators to analyse the usefulness of the generation information page in improving locational decisions and the predictability of MLF changes.

If the Commission considers that addressing the problem warrants a deeper exploration of the underlying causes, then it should do so through the Coordination of generation and transmission investment (COGATI) review.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



Steve Reid  
Group Manager, Regulatory Policy