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

By email: [John.Pierce@aemc.gov.au](mailto:John.Pierce@aemc.gov.au)

Dear Mr Pierce

### **Draft rule determination on transmission loss factors**

Thank you for the opportunity to make a submission on the Australian Energy Market Commission's (the AEMC's) draft rule determination on transmission loss factors, which follows a rule change request by Adani Renewables.

A continuing concern for the Australian Competition and Consumer Commission (ACCC) is the affordability of electricity for consumers. In our recent report on prices, profits and margins in the supply of electricity in the National Electricity Market (NEM) we found that, while the average annual bill for a residential customer fell by \$65 in 2018–19 compared with the previous year, households were still paying about 20 per cent more than in 2007–08.<sup>1</sup>

The changes considered through this rule change request have implications for affordability. The allocation of intra-regional settlement residue (IRSR) directly impacts the transmission costs paid by consumers and the loss factor framework plays a part in providing signals for investment in generation, which also affects the prices paid by consumers. And so we are particularly interested to ensure that any changes to the current framework appropriately takes into account the potential impacts on affordability.

For the reasons set out below, the ACCC supports the AEMC's draft rule determination that largely retains the existing transmission loss factor framework with some refinement while a longer-term reform program is considered.

### **Rule change request**

The rule change request, put forward by Adani Renewables, proposed that:

- part of the IRSR be redistributed to generators so that it is shared equally between generators and transmission customers, and

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<sup>1</sup> ACCC, *Inquiry into the National Electricity Market - November 2019 Report*, 22 December 2019, p. 2.

- the marginal loss factor (MLF) methodology be changed to an average loss factor methodology.<sup>2</sup>

### **IRSR allocation redistribution**

The ACCC supports the AEMC's draft rule determination to not redistribute part of the IRSR to generators and instead continue to allocate the IRSR to transmission customers through reduced transmission use of system (TUOS) charges.<sup>3</sup>

Under the current arrangements, the IRSRs that are distributed to the transmission network service providers (TNSPs) are passed on to transmission customers through reduced TUOS charges. As the AEMC observes, redistributing part of the IRSR to generators would diminish the reduction of TUOS charges and result in increased costs being passed on to consumers. This would have a clear and direct impact on affordability. We agree with the AEMC that, as consumers ultimately pay for transmission infrastructure, it is appropriate that their transmission costs are reduced.

### **MLF methodology**

The ACCC also supports the AEMC's draft rule determination to not change the MLF methodology to an average loss factor methodology or another approach at this stage, and instead consider the methodology used to determine transmission loss factors as part of broader long-term reform considerations.<sup>4</sup>

As the AEMC observes, as generation technologies continue to evolve and numerous small and geographically dispersed generators continue to connect to the NEM, the system has experienced more volatility in MLFs. We understand that the AEMC is considering dynamic loss factors through the Coordination of Generation and Transmission Investment (COGATI) review as an alternative to the current MLF methodology. We agree with the AEMC that any changes to the loss factor framework should be considered alongside any other relevant proposals, reviews or possible changes to market design. We consider that this more holistic approach will better take account of the complexities involved to ensure efficient outcomes, including for investment in generation.

We do understand however that the draft rule determination includes some changes to allow the Australian Energy Market Operator (AEMO) to refine the current MLF methodology and that AEMO also intends to enhance the information it publishes regarding MLFs. We welcome these developments while the AEMC works towards long-term reform.

If you have any questions in relation to this submission, please contact Renee Coles, General Manager (A/g), Electricity Markets Branch, on (03) 9290 6921.

Yours sincerely



Rod Sims  
Chair

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<sup>2</sup> AEMC, *Transmission loss factors*, <https://www.aemc.gov.au/rule-changes/transmission-loss-factors>.

<sup>3</sup> AEMC, *Draft rule determination – Transmission loss factors*, 14 November 2019, p. ii.

<sup>4</sup> AEMC, *Draft rule determination – Transmission loss factors*, 14 November 2019, p. i.