



22 August 2014

Peter Biddle
Australian Energy Market Operator
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Melbourne VIC 3001

Submitted by email: peter.biddle@aemo.com.au

Dear Mr Biddle

REVIEW OF THE METHODOLOGY FOR CALCULATING FORWARD LOOKING TRANSMISSION LOSS FACTORS

Origin Energy Limited (Origin) welcomes the opportunity to comment on the Australian Energy Market Operator's (AEMO's) Issues Paper on its review of the Forward Looking Loss Factor Methodology (the Methodology).

Origin supports AEMO's review of the Methodology. The Methodology was established over ten years ago in 2003. Market conditions in the National Energy Market have changed significantly since the Methodology commenced. It is now appropriate that the Methodology is reviewed to ensure it is still suitable and robust in the changed environment.

We understand AEMO's review is focusing on changes to the Methodology that could be implemented fairly quickly and prior to the commencement of the process to establish the 2015-16 Marginal Loss Factors (MLFs). We support this process. The remainder of this submission outlines Origin's response to each of AEMO's four recommendations.

1. Give generators a better opportunity to advise AEMO of manifestly incorrect generation profiles

Origin agrees with AEMO's proposed process to give generators more time to provide feedback to AEMO on manifestly incorrect generation profiles. We note this new process includes:

- AEMO will provide indicative extrapolated generation profiles by the end of September;
- generators will have until 15 November to provide AEMO with an adjusted generation profile; and
- AEMO will continue to publish its loss factors for the financial year for which the loss factors are to apply by 1 April.

The first step whereby AEMO will provide indicative extrapolated generation profiles is a welcome addition. This is an improvement to the current process as it provides an opportunity for generators to respond to an indicative profile compared with the current process whereby a generator is required to proactively seek an adjusted generation profile in relation to "unforeseen circumstances". This also addresses the recent issue with the 2014-15 MLFs where participants were given a very short amount of time to examine and provide feedback to AEMO on the draft MLFs.

The Issues Paper notes AEMO intends to trial the process of providing the indicative extrapolated generation profiles by the end of September. The Issues Paper, however, is unclear about whether this process will be included in the revised Methodology. Origin suggests this process and the September timeframe be explicitly written into the Methodology as it is an important improvement to the MLF establishment process.

The revised drafting of section 5.5.6 of the Methodology explains that “revised generation profiles are not [to be] market-related or arise as a result of the financial positions of Generators”. While Origin appreciates this is intended to ensure generation profiles are easily verifiable as they would be based on physical circumstances only, we note this method may not always produce the most accurate profiles. For example, with the recent repeal of the carbon price legislation, the MLF calculations for 2015-16 will be based on generation profiles from 2013-14, which includes a carbon price. Certain generators will have completely different generation profiles for 2015-16 due to the repeal of the carbon price. The Methodology does not allow corrections for a step change such as this and as a result, the MLFs are unlikely to accurately represent the prevailing conditions in 2015-16.

To address issues such as this and improve the accuracy of the MLF calculations, Origin suggests AEMO continue to consider whether there are further improvements to the process for establishing MLFs outside the scope of this current review process. The Issues Paper notes that AEMO has commenced investigating the possibility of using market simulations as a basis for generation forecasts for other purposes. We support AEMO assessing the suitability of this approach for the calculation of MLFs and would be happy to assist with this process where possible.

2. Allow AEMO to adjust flows on Market Network Service Provider (MNSP) networks to reflect any proposed change in generation profile

Origin notes Basslink is the only MNSP. Currently, if historical generation profiles on either side of Basslink are varied then the flow through Basslink is no longer representative of likely network flows. AEMO’s preferred solution to this issue is to adjust Basslink flow for a change in Tasmania generation only. Origin supports this solution as it will improve the accuracy of the flow through Basslink.

3. Correct how AEMO currently manages generating unit capacity reductions

The Issues Paper notes that the Methodology requires AEMO to adjust historical generation capacities to reflect capacity reductions noted in the most recent Electricity Statement of Opportunities (ESOO). This could lead to an incorrect use of this capacity reduction in MLF calculations in future years. AEMO details two issues with this process: double-counting of capacity reductions and maintenance outages reported as capacity reductions.

In relation to the double-counting of capacity reductions, AEMO proposes to continue to use generation capacities as published in the latest ESOO but estimate generation when the current year becomes the reference year in order to “fill” the gap in historical generation during the outage period. In relation to maintenance outages reported as capacity reductions, AEMO proposes to review and ignore capacity reductions reported in the ESOO capacities due to maintenance and provide a summary in its MLF report on 1 April each year.

Origin supports both proposals. For the latter proposal, the Methodology needs to provide a clear definition for a maintenance outage. This should also articulate a frequency for what constitutes a routine maintenance outage.

4. Re-write the Methodology to separate the Methodology from the associated commentary

Origin supports separating the Methodology from the associated commentary as it will improve the clarity and useability of the document.

5. Further information

Should you have any questions or wish to discuss further any detail of this submission, please contact Lillian Patterson on lillian.patterson@originenergy.com.au or (02) 9503 5375.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "K. Robertson".

Keith Robertson
Manager, Wholesale and Retail Regulatory Policy