

2 August 2024

Australian Energy Market Operator (AEMO)

Submitted via email (mlf_feedback@aemo.com.au)

Dear AEMO,

Consultation on Forward-looking Transmission Loss Factor Methodology

Hydro Tasmania welcomes the opportunity to provide a response to the Australian Energy Market Operator's (AEMO) Consultation on Forward-looking Transmission Loss Factor Methodology.

Continuous improvement is vital in a dynamic industry like energy, and we appreciate AEMO's work in developing an upgraded replacement for TPRICE. As the National Electricity Market (NEM) continues to decarbonise and the generation mix becomes more diverse, it is essential that systems and procedures are updated to match. More accurate marginal loss factors (MLFs) can help improve economic signals to industry and enhance market efficiency.

In general, Hydro Tasmania supports AEMO exploring methodology options for calculating transmission losses in direct current (DC) interconnectors, noting more analysis is needed prior to a change in such a complex process. It is our view that allowing regulated DC links the ability to change as part of the supply-demand balancing process could improve the accuracy of MLF calculations and therefore improve market efficiency. However, Hydro Tasmania considers that further work is needed to confirm if Option 2a or 2b would be an improvement to the status quo (Option 1), as they are a significant departure from the current methodology. Hydro Tasmania therefore supports AEMO exploring and consider the benefits of the options presented and sharing this assessment to market participants for further consultation. As a part of this assessment, Hydro Tasmania would appreciate a comparison of the existing methodology vs alternative methodologies to help inform the consultation process.

Please see Attachment A for more detailed comments on the Issues Paper, which relate to the following sections:

- 3.1.1. Direct current (DC) interconnectors
- 3.3.1. Design of minimal extrapolation levels

- 3.3.2 Cluster resolution

Hydro Tasmania looks forward to engaging further with AEMO as this consultation process continues. If you wish to discuss any of the submission in more detail, please contact Dane Merkel at dane.merkel@hydro.com.au

Yours sincerely,



John Cooper
Manager Market Regulation

ATTACHMENT A – Hydro Tasmania response to the Consultation on Forward-looking Transmission Loss Factor Methodology

3.1.1. Direct current (DC) interconnectors

Hydro Tasmania is supportive of AEMO’s proposal to explore opportunities to incorporate regulated DC link flows in the supply-demand balancing process (Option 2). It is Hydro Tasmania’s view that moving away from fixed historical DC link flows (Option 1) could increase MLF accuracy, leading to greater efficiency overall. We agree with AEMO in that Option 2a would be an easier option to design and implement, as compared to Option 2b.

Whilst a more complex solution like 2b may produce much more accurate results, we believe it is worth considering the secondary consultation objectives – transparency and simplicity. Hydro Tasmania is uncertain at this stage whether the added complexity of 2b is worth the potential additional accuracy in MLF calculation.

Hydro Tasmania would appreciate AEMO exploring both options and presenting the results of all three methods – Option 1/status quo, Option 2a, and Option 2b. Without a direct comparison of the results and effort required for each, it is difficult to comment on a preferred option. We look forward to engaging further with AEMO on this process.

3.3.1. Design of minimal extrapolation levels

Hydro Tasmania agrees with AEMO’s conclusion that the current levels are no longer fit for purpose and supports AEMO’s proposal to update them to reflect the current generation mix operating in the NEM. It is Hydro Tasmania’s view that number of levels should be kept as low as practical, as a large number of levels is likely to add complexity with diminishing returns on efficiency.

We support AEMO’s suggestion of group technologies with similar market behaviour, particularly the disaggregation of hydropower with wind and solar. Hydro Tasmania feels that DC interconnectors should not be included in the level hierarchy, due to the flow across them being an output of the supply-demand balancing.

3.3.2 Cluster resolution

The ability of NEMLF to define clusters at greater granularity than the region level has potential for increasing efficiency, however this relies on choosing an appropriate level of aggregation and cluster groupings. Hydro Tasmania recognises this will be a complex and challenging process for AEMO and it is vital that clusters are defined in a way that most accurately reflects market behaviour and outcomes. We recognise AEMO may have to apply discretion to some decisions throughout this process – it is important that these are communicated transparently and with the corresponding rationale for each decision.