

Agenda

**Optional firm access: design and testing
Industry working group**

Meeting 3

Date: 11 June 2014
Time: 10am to 4pm
Location: AEMC Office
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Coffee on arrival

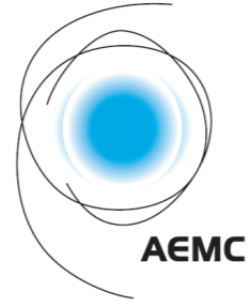
- 1. Introduction and welcome – AEMC**
- 2. TNSP incentives– AEMC**
- 3. Short-term access – AEMC**

Lunch

- 4. Inter-regional access– AEMC**
- 5. Initial transitional access allocation– AEMC/AEMO**
- 6. Principles for transitional access sculpting – AEMC/HoustonKemp**
- 7. Next meeting**

Optional Firm Access Working Group Meeting 3

13 June 2014



The third working group meeting was held in Sydney on 13 June 2014. The attendees of the meeting are listed below.

Member	Organisation
Ben Skinner	AEMO
Brian Nelson	AEMO
Jamie Lowe	Alinta Energy
Ralph Griffiths	EnergyAustralia
Victor Petrovski	EnergyAustralia
Kevin Ly	Snowy Hydro
Peter Nesbitt	Hydro Tasmania
Jennifer Tarr	Stanwell
John McDonald	Infigen
Chris Deague	GDFSuez
Ken Secomb	GDFSuez
Brad Harrison	ElectraNet

The AEMC's project team attended and is listed below.

Name	Position
Richard Khoe	Director
Stuart Slack	Senior Economist
Tom Walker	Senior Adviser
Victoria Mollard	Adviser
Alex Fattal	Adviser
Dave Smith	Creative Energy Consulting
Greg Hesse	Secondee from Powerlink

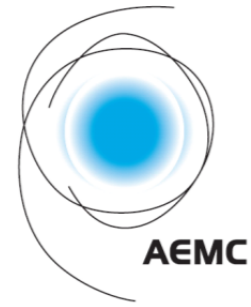
Paul Smith (Chief Executive, AEMC) attended for agenda items 5 and 6. Adrian Kemp (Houston Kemp Economists) attended for agenda item 6.

All enquiries on this project should be addressed to Victoria Mollard on (02) 8296 7800.

In line with the Terms of Reference for this project, the AEMC has formed the working group to provide technical advice and to help with assessing the potential impacts of the optional firm access model on industry. The working group is shared with AEMO, who will also bring matters for discussion. The AEMC has also formed an Advisory Panel to provide strategic advice on high-level issues.

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The following items and points were discussed at the meeting:

- **TNSP incentives**

- The AEMC presented its latest thoughts on the incentive scheme that would apply to TNSPs to encourage them to operate their networks in a way that maximises access for firm generators and interconnectors.
- The AEMC outlined the potential design of a low-powered symmetrical scheme that would provide a continuing incentive for TNSPs to meet the firm access standard (which, as discussed at the last Working Group meeting, would apply at all times).
- Some participants were concerned that the scheme relied on the AER to set incentive scheme parameters through revenue determinations. Therefore, AER decisions in the future may change the value generators placed on firm access.
- Some participants were also concerned that there would be real-time settlement of the scheme. They were concerned that this may create additional risks for generators. It was also commented that the scheme appears complex.

- **Implementation**

- The AEMC discussed the restrictions on the order and timing by which different elements of optional firm access can be introduced, including in different regions. For example, the introduction of inter-regional access may require some modifications to the existing Settlement Residues Process.
- The AEMC also outlined the different options for staging the introduction of optional firm access, including by introducing different parts of the model before others, or introducing it progressively across regions.
- The AEMC noted that no assessment of the different options has been undertaken.
- Some participants considered that promoting inter-regional trading should be the priority of any staging option chosen.
- Some participants considered that the option chosen should not include Shared Access Congestion Pricing as a stage towards full optional firm access. This could be inconsistent with promoting financial certainty which is one of the principles of optional firm access.

- **Short-term access**

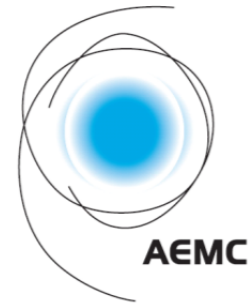
- The AEMC presented its latest thoughts on the short-term firm access product, which is firm access that is issued on a timescale that is less than the lead time for transmission expansion (currently assumed to be three years).
- The revised short term access could be purchased by generators through an auction, where short-term access would offer into by either TNSPs or generators.
- Some participants noted that there would be administrative costs of setting up the auction processes, and that this might be quite expensive.
- There was discussion on the optimal mix of short and long term access for a generator to purchase and the interaction with the incentives on TNSPs.

- **Inter-regional access**

- The AEMC presented its latest thoughts on the inter-regional firm access product, which provides for firm access across interconnectors, from regional reference node to regional reference node.

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- The AEMC's presentation mainly focussed on the issues involved with determining a procurement process for inter-regional access.
 - The AEMC is considering an auction process, but has not made a firm decision on the design.
 - Some participants noted that consumers could be the beneficiaries of improved interregional access.
 - Some participants stated that they considered that generators would prefer shorter term and not long term interregional products. This is because a participant's interregional trading strategy is highly reliant on dynamic factors. This may make it difficult to find enough interest for a long term auction to clear.
- **Initial transitional access allocation**
 - The AEMC and AEMO presented on the method for determining the initial level of transitional access allocated to generators at the commencement of the optional firm access.
 - Test runs using the procedure outlined in the Transmission Frameworks Review final report have been undertaken and preliminary sub-regional results were presented to the Working Group.
 - These results will not be used for the actual allocation of transitional access at the implementation of optional firm access and the purpose of the discussion was to receive feedback on the methodology used.
 - Some stakeholders considered that the methodology of allocating additional load at the regional reference node did not properly take into account local load and so could result in inappropriate allocations for some generators.
 - Some stakeholders considered that the methodology fails to achieve the initial transitional allocation objectives as set out on page 119 of the Transmission Frameworks Review Final Report. These stakeholders requested that alternative transitional allocation methodologies be presented for consideration in the AEMC's 1st Interim Report.
- **Principles for transitional access sculpting**
 - The AEMC and Adrian Kemp (Houston Kemp) presented on the issues and trade-offs for determining the rate of scaling back of transitional access.
 - The AEMC also presented a number of options for the shape, and speed of potentially scaling back access.
 - Participants considered that the preferred option would be to minimise the scaling back of access over the transitional period. Allocated access levels should remain constant to minimise market shock.
 - Some participants commented that secondary trading of transitional access would be sufficient to allow new entrants to acquire firm access. Participants also queried whether there would be any inefficiency in allowing incumbents to retain their transitional access and not have sculpting.