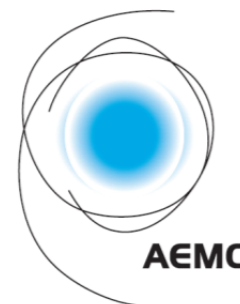


Optional Firm Access Advisory Panel

Meeting 3: 20 October 2014



The third Advisory Panel meeting was held in Sydney on 20 October 2014. The attendees of the meeting are listed below.

Member	Organisation
Brian Spalding (Chair)	Australian Energy Market Commission
Alan Millis	Department of Energy and Water Supply (Queensland)
Mark Feather	Department of State Development, Business and Innovation (Victoria)
Vince Duffy	Department for Manufacturing, Innovation, Trade, Resources and Energy (South Australia)
David Swift	Australian Energy Market Operator
Craig Oakeshott (substitute for Tom Leuner, via phone)	Australian Energy Regulator
Jo Benvenuti	Consumer Utilities Advocacy Centre
Ross Edwards	EnergyAustralia
Rainer Korte	ElectraNet
Charles Pople	Industry Adviser to the AEMC

The following AEMC staff also attended:

Name	Position
Anne Pearson	Senior Director
Richard Khoe	Director
Victoria Mollard	Senior Adviser

Ross Bunyon (Special Adviser to the Commission and the Advisory Panel) and Chris Locke (Department of Industry - Commonwealth) were apologies for the meeting.

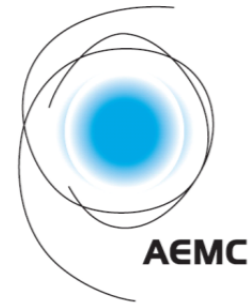
The COAG Energy Council (formerly the Standing Council on Energy) has asked the Australian Energy Market Commission (AEMC) and the Australian Energy Market Operator (AEMO) to undertake detailed design, testing and assessment of the optional firm access model. The model was proposed by the AEMC as part of the Transmission Frameworks Review in April 2013. In line with SCER's terms of reference for this review, the AEMC has formed the Advisory Panel to provide strategic advice on high-level issues.

AEMC staff presented the following matters at the meeting:

- an update on project timing;
- a high-level summary of submissions to the First Interim Report;
- the work we are currently doing on assessment of the impacts of optional firm access; and

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- a high level summary of the work we have done developing the optional firm access model, including:
 - pricing;
 - transition; and
 - sellback rights.

During discussion of submissions to the First Interim Report, the following points were made by participants:

- It was noted that there are two different points of view in the opposition to the optional firm access (those that have problems with the model itself, and those that consider that times have changed and there is no longer a problem that remains to be solved).
- It was also noted that a number of submissions had commented on the complexity of the model, and that it would be useful to explore if a simpler form of model could be found.

During discussion of the work we are currently undertaking, or about to undertake, on assessment of the optional firm access model the following points were made:

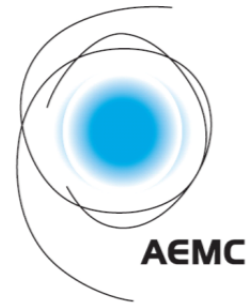
- It was noted that modelling of benefits associated with OFA is difficult, since it is attempting to model marginal locational decisions. Further, that there is currently a lot of uncertainty in the market, which makes modelling scenarios difficult.
 - One suggested scenario was one where there is a large increase in gas prices, which would result in consumers switching away from gas, and so a substantial increase in electricity demand.
- Generators noted that they would be interested in understanding the impacts from optional firm access on their business compared to the status quo. It would be useful to understand the impacts depending on whether the business was “firm” or “non-firm”. It would also be useful to understand how much firmness the product would deliver. Further, this should be informed by the current market conditions, eg, the market being over-supplied.
- Consumers noted that they are interested in the governance arrangements of the optional firm access model. The AEMC noted that it is currently considering this issue further, and more information on this will be contained in our draft report.

During discussion of the work we doing developing the optional firm access model the following comments were made:

- The AEMC presented its work on the development of the prototype pricing model.
 - Participants were interested in seeing the relativities in the prices produced by the pricing model.
 - Participants also raised the issue of the level of accuracy that can be achieved, noting that full accuracy might require case studies. In response the AEMC noted that the model is stylised and was never intended to be perfectly accurate.
- The AEMC presented on progress that has been made on policy considerations relating to transitional access. The AEMC is currently considering three methods of allocating transitional access:

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- initial allocation based on the methodology published in the First Interim Report;
- an auction or series of auctions of access; or
- a hybrid model where some access is allocated pro-rata between generators and the remainder is auctioned.

Participants noted the importance of allowing for value discovery through the auction process. Also, that the transitional access should take into account the balance-sheet impacts of transition on generators. It was also noted that the reasons for adopting a different allocation methodology in the different methods above should be brought out.

- Some stakeholders have raised concerns that the optional firm access model could result in TNSPs being required to undertake an uneconomic expansion due to historical access purchases. The AEMC presented an option to allow generators to sell firm access back to TNSPs.
 - Participants noted that it is important that TNSPs can make capex/opex trade-offs when considering how to provide capacity consistent with the firm access planning standard.
 - Participants also noted that secondary trading is key to an effective optional firm access model – this way, access can be traded between participants (both within a region, and also inter-regionally).
 - Participants also considered that it is important to bring out how the TNSP could take a more active role in the sell back of access.
- Finally, consumers noted it is important that consumer groups remain up-to-date with our progress and thinking on optional firm access. It was noted that it would be good for the AEMC to hold discussions with consumer groups prior to the publication of the draft report in February.