



Optional Firm Access, Design and Testing

Publication of First Interim Report

Optional Firm Access relates to the coordination of transmission and generation operations and investment. It may contribute to a market that is able to adapt to changing conditions, particularly demand and generation patterns, and therefore deliver better outcomes for consumers. Today the AEMC has published a First Interim Report as part of our project to develop the optional firm access model, and assess the impacts that the model would have on the market.

Development of Optional Firm Access

The National Electricity Market (NEM) is currently experiencing a period of significant change and uncertainty. The Commission considers we need a resilient, sustainable market that can adjust to changes that affect the supply and use of electricity, and support economic growth.

Against the backdrop of a changing energy sector, the Commission proposed an integrated package of market arrangements during the Transmission Frameworks Review, termed Optional Firm Access. These arrangements create the ability for generators to pay for a specified level of network access to manage the effects of periodic network congestion. The model would change not only the way generators access the market during times of congestion, but also the way transmission operational and investment decisions are made.

The Optional Firm Access model would introduce more commercial drivers on transmission businesses and more commercial financing of transmission infrastructure. It should result in an improved coordination of generation and transmission operations and investment.

This has the potential to minimise prices for electricity consumers in the longer term by minimising the total system cost of building and operating both generation and transmission. It should also transfer some of the risk of transmission investment from having to be managed through regulation on behalf of consumers, to the owners of the generation businesses via commercial arrangements entered into between generation and transmission businesses.

The COAG Energy Council, through the Terms of Reference, directed the Commission to develop this model in more detail and undertake an assessment of the impacts of implementing it.

Purpose of First Interim Report

The First Interim Report represents a “progress update” on the work we have done since receiving the Terms of Reference in February 2014. The focus at this stage has been on further developing certain “core” elements of the design of the Optional Firm Access proposal. This includes:

- the firm access standard, which represents the level of access that transmission businesses would be required to make available for generators that choose to purchase firm access. The firm access standard translates the level of access generators acquire into a level of transmission capacity that transmission businesses must provide;

Optional Firm Access has the potential to minimise the total system cost of building and operating both generation and transmission and therefore to minimise prices for consumers.

Purpose of First Interim Report (continued)

- the TNSP incentive scheme, which is designed to encourage transmission businesses to make efficient decisions in operating their networks and to manage risks within their control;
- inter-regional firm access, which offers a firmer inter-regional access product than is currently available since it does not depend on flows across the interconnector. This would be issued through an auction;
- short-term access, which is firm access available for a time period less than which would trigger the need for network investment;
- approach to transitioning the model, which would apply in the early years following implementation of the Optional Firm Access model.

The refinements that we have made to these elements are largely consistent with the outline of the elements of the model as contained in the Terms of Reference.

The First Interim Report also includes our initial work on how the assessment of the impacts of Optional Firm Access if it was introduced, will be approached.

In addition it sets out three high-level implementation options for Optional Firm Access (simultaneous implementation; temporal staging; and geographic staging), which we are required to consider under the Terms of Reference.

The way Optional Firm Access is implemented impacts on how successful it would be, and how soon the benefits would be realised. The sooner such benefits are realised, the quicker customers would benefit. The full benefits of Optional Firm Access can only be realised when all core elements have been implemented in all jurisdictions.

Collaboration

The Australian Energy Market Operator (AEMO) also received a terms of reference to undertake a review, which complements that received by the AEMC. AEMO's work focuses on the component of Optional Firm Access by which non-firm generators compensate firm generators. We are collaborating with AEMO on our work on this project.

Next steps

We seek stakeholder input on this First Interim Report. Submissions close on 4 September 2014.

We are also planning to hold a public forum on this report on Thursday 14 August 2014 in Sydney.

We will publish a draft recommendation as to whether or not Optional Firm Access should be implemented, along with our draft assessment of the benefits and costs of Optional Firm Access by the end of 2014.

Consistent with the Terms of Reference, we will publish by mid-2015 a final report including our final recommendation as to whether or not Optional Firm Access should be implemented, and if so, in what form.

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