



InterGen (Australia) Pty Ltd  
Level 26  
400 George St  
BRISBANE QLD 4000  
Australia  
ABN: 71 080 050 737  
Tel: +61-7 3001 7177  
Fax: +61-7 3001 7178

30 January 2015

Mr John Pierce  
Mr Neville Henderson  
Dr Brian Spalding  
Australian Energy Market Commission

Lodged electronically: [www.aemc.gov.au](http://www.aemc.gov.au) (EPR0039)

Dear Commissioners

RE: EPR009 –Optional Firm Access, Design and Testing

By way of background InterGen Australia (**InterGen**) is owned by InterGen N.V. and the China Huaneng Group (**CHG**). CHG is China's largest generation company. InterGen and CHG are leading developers and operators of electricity generation facilities worldwide. In Australia, InterGen is the operator and majority owner of the 851MW Millmerran Power Station and a 50% owner of the 850MW Callide C Power Station.

The Australian Energy Market Commission (**AEMC**) has sought stakeholder submissions to its Optional Firm Access Design and Testing – Acknowledgement and Request for Comment dated 5 December 2014. AEMC is specifically seeking to understand the significant stakeholder concerns that are being communicated re the design of Optional Firm Access (**OFA**).

InterGen acknowledges the comprehensive analysis the AEMC has undertaken to date with respect to the Transmission Frameworks Review (**TFR**) and more recently, the OFA model design. Importantly, we are supportive of the AEMC's robust and rigorous approach to these reviews and the significant resources expended to ensure any proposed change is consistent with achieving the National Electricity Objective (**NEO**)<sup>1</sup>. However, InterGen has serious concerns with the OFA and its ability to effectively meet the NEO.

InterGen's positions in relation to the AEMC's queries are set out below.

---

<sup>1</sup> National Electricity Law section 7

## Why stakeholders consider the major problems that OFA is attempting to address are no longer relevant

### *The NEM has evolved*

When the TFR was first initiated, the NEM was experiencing high forecast demand and supply growth that had the potential in time to expose the network to material constraints. At that time it was reasonable to consider the pros and cons of an alternate access arrangement with the objective of reducing total system costs (i.e. generation and network). However since the TFR, the NEM's expectations of demand growth and transition from existing generation fleet to a new generation fleet over time have dramatically changed. This has ameliorated the likely persistence of material constraints and perceived "disorderly bidding" which were some precursors for the TFR.

Low expectations of demand growth has also muted the OFA's purported benefit of creating cost reflective locational signals for generation that take into account resulting transmission costs. It is now unlikely that large scale new build will be required to meet demand growth for at least 10 years (and possibly longer) under any of AEMO's growth scenarios.<sup>2</sup> Based upon AEMO's current view and in light of potential new methods of delivery of energy in the future<sup>3</sup>, it is nonsensical to now implement a costly and complex market design change to address market concerns that are no longer likely to be relevant.

### *Increasing Regulatory Flux*

InterGen contends that the now continuous and significant regulatory change faced by NEM participants has become hazardous to the efficient operation of the NEM. In this instance, the OFA merely substitutes transient market concerns with a disproportionately complex and fixed regulatory regime that creates a new set of market risks. This on-going change has severely impacted upon participants' ability to operate commercially, and has curtailed willingness to undertake productive new investment.

We are also deeply concerned about the investment uncertainty the protracted nature of this review has created. Should the OFA proceed, there will be several more years before the true impact of the design and its effect on existing investments can be understood. This continued uncertainty, coupled with other ongoing regulatory change, impacts on the ability to successfully access debt and equity markets to support existing and future investment; as well as the cost of capital rising to reflect the ongoing risks and uncertainty caused. Further, the OFA's inherent complexity is likely to incur significant implementation and ongoing compliance costs for InterGen which we are unlikely to have the means to recover.

### *OFA does not adequately address pre-existing access concerns of generators:*

As previously raised with the AEMC<sup>4</sup>, the OFA has potential to impact InterGen's current access arrangements to the financial detriment of its projects. As such, the introduction of the OFA places InterGen in an immediate disadvantage to other generators solely due to regulatory change that is not addressed by the proposed transitional access arrangements. Despite a lengthy review process, the AEMC has failed to fully engage on generator specific access concerns. On the basis that InterGen is not unique in incurring additional cost should the OFA be implemented, it is difficult to foresee how the OFA can meet its purported goal of reducing total system costs.

---

<sup>2</sup> AEMO, Electricity Statement of Opportunities, August 2014.

<sup>3</sup> For example via distributed energy, self-generation, greater energy productivity or other technological advancement.

<sup>4</sup> InterGen submissions to the AEMC dated 4 September 2014, 9 October 2012, 27 January 2012 and letter to the AEMC dated 31 August 2012.



### *Firm Access is Not Guaranteed:*

The OFA does not guarantee the generator the level of access it has acquired, or that financial compensation will be sufficient to cover access losses incurred. This is despite significant payments to be made by generators to acquire such access. Whilst the AEMC claims the model is “optional”<sup>5</sup>, that is actually incorrect. In reality baseload plant will most likely be compelled to seek firm access due to the significant risk of financial loss during an “access” event and an inflexibility of some plant to respond quickly to these signals without risking a plant trip.

### *Transmission Planning Benefit*

It is questionable that the OFA can practically remove the risk of inefficient transmission investment decisions being borne by consumers by having generators specifically value access with a firm access request.

For example, as TNSPs still need to recover the cost of network investment, the OFA merely reallocates a portion of the cost from visible network charges into a smeared energy charge depending on the level of firm access sought. Plus, the overall cost to consumers would likely be higher than the status quo due directly to an additional “OFA” compliance overhead that generators will seek to also recover in the pool price.

It is InterGen’s belief that the risk of inefficient transmission investment decisions is already appropriately mitigated through the existing regulatory investment test for transmission (RIT-T) and it is unnecessary to overlay a more complex apparatus to achieve essentially the same goal.

### *The ability of the OFA to support hedging is circumspect:*

The AEMC’s First Interim Report states that the OFA model will encourage generators to contract to higher levels based upon improved access<sup>6</sup>. This assumes that network access is a significant issue that is curtailing the desire or ability to hedge. It is impossible to comprehend how this view was reached by AEMC. It is definitely not true. In the case of InterGen’s projects, network access has had no bearing on our hedge levels, which are driven by other more significant drivers such as market risk and plant outage risk.

If the problems are no longer relevant, whether there are circumstances in which stakeholders could envision any or all of these problems becoming relevant at some time in the future? If not, why not?

History has confirmed that the NEM is resilient and has continued to evolve to meet changes in supply, demand and other market conditions.<sup>7</sup> It is unlikely that the same set of market conditions as experienced prior to the TFR would occur in the future to now justify implementing the OFA. It is however, far more likely that the OFA will prevent the NEM from adapting to changing market conditions and as a result require further costly and inappropriate regulatory intervention in the future.

If the problems are still relevant, any alternatives to OFA to address them, recognising that it would likely take a number of years to develop and implement any alternatives.

InterGen believes that the previous drivers for the TFR are no longer relevant and as such, no alternatives solutions are warranted.

<sup>5</sup> That is, a generator can choose the level of access it requires and hence the quantum of access payments.

<sup>6</sup> AEMC, First Interim Report, Optional Firm Access, Design and Testing page 22

<sup>7</sup> For example, droughts, introduction of the carbon tax and RET scheme and various consolidations including privatisations.

## Conclusion

It is InterGen's view that the OFA model no longer meets the National Electricity Objective. There is not broad support for change. However, what is clear is that there are significant proposed costs, complexity, risks and potential for inefficient wealth transfer. What is unclear is whether the OFA model will have any material benefits to the NEM or further the NEO.

Accordingly, InterGen does not support the OFA's continued development or implementation.

InterGen trusts that the AEMC will carefully consider the issues we have raised.

Please feel free to contact Mr. Robert Pane on 07 3001 7124 regarding any queries on this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Bristow', is written over a horizontal line.

**Sam Bristow**  
**General Manager, Trading & Development**  
**InterGen (Australia) Pty Ltd**