



# Background to the OFA model



AUSTRALIAN ENERGY MARKET COMMISSION  
Richard Khoe, Director

# How OFA works

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- Core elements of the OFA model were designed in the TFR project and have been further developed in this project
- OFA would create the ability for generators to “insure” against the risk of congestion
  - generators would have the option of buying firm access rights to transmission networks to manage congestion risk
  - generators, rather than planners, would drive part of the decision-making about future transmission development

## How OFA works (2)

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- Without OFA: a generator may be constrained off and unable to dispatch its electricity → it won't get paid
- Under OFA: a generator MAY buy firm financial access to the transmission network
- OFA does NOT give generator physical access → dispatch process remains unchanged (physical and financial access delinked)
- If a generator seeks firm access it is charged a regulated price depending on how many MW it seeks and where it seeks access
- Generator does NOT identify all places on the network where it wants the network built, it just identifies access point of generator
- The TNSP cannot refuse the generator access

## How OFA works (3)

- Generators could still choose to be non-firm and not pay for access to the transmission network
- Non-firm generators compensate firm generators if they are dispatched ahead of firm generators at times of congestion
  - When the network is constrained, non-firm generators would compensate constrained-off firm generators the difference between the local price and the regional price
  - The local price will not be less than non-firm generators' offer price (and so they will not make a loss)
  - Compensation for a firm generator could never be more than its capacity
- Transmission networks would have an obligation to build the network to accommodate the access that has been purchased

## How OFA works (4)

- Generator could only buy firm access from its local TNSP
- The regulated price firm generators pay their local TNSP for obtaining access rights will reflect the cost of providing access – based on Long Run Incremental Cost
- A new “Firm Access Standard” would require that TNSPs plan the network to provide capacity to underpin firm rights under specified network conditions
- Incentives would be set to encourage TNSPs to operate the network in such a way to reduce the impact of outages on generators
- Inter-regional access would be available and work in similar way to intra-regional access. Inter-regional access would replace SRAs

# Benefits of OFA

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- A more coordinated approach to generation and transmission investment (including a market-led approach to transmission investment)
- Transfer some risk of transmission investment from consumers to owners of generators
- Better operation of transmission networks
- Firmer hedge against inter-regional price differences
- Create more certainty for generators
- Better locational signals for generators

# Benefits of OFA

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- Reduce electricity prices in the long term
  - May minimise the total system cost of building both generation and transmission over time
- Reduce risks for consumers from investment decisions
  - Owners of generation businesses would bear the cost of investment undertaken to support their access decision
  - Competition is likely to limit the ability of generation businesses to pass through the costs of inefficient investment
- Support for inter-regional trade
  - May increase both wholesale and retail competition