

30 April 2015

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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Lodged through AEMC Website

OFA Draft Recommendation

Please find attached our submission on the Draft Recommendation by the AEMC on **Optional Firm Access: Firm Access, Design and Testing**. Please contact the undersigned if you require further information.

Yours faithfully,



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AEMC have developed a draft view in relation to OFA as shown below:

The Commission's draft assessment is that, absent some major shift in market conditions and government policy settings, its implementation would not contribute to achievement of the National Electricity Objective. However, it could be beneficial in an environment where there was both a high level of uncertainty with respect to investment patterns and significant new investment was required.

Hydro Tasmania is very concerned that OFA should be put on the shelf for when conditions are right. In our view OFA is a flawed concept and setting an expectation that under some future scenario there may be benefits is incorrect. In particular, the assertion that OFA may be beneficial in an environment "with a high level of uncertainty" is not based on any analysis. Additional complexity brings with it less flexibility and this is undesirable in an uncertain environment. Both the additional complexity and the resulting inefficient outcomes from the inflexibility are likely to lead to increased costs for industry and consumers. By its nature, high levels of uncertainty do not lend themselves to analytical techniques in this complex context.

Hydro Tasmania's view is that in an environment with a high level of uncertainty, additional complexity should be avoided.

During the extensive consultation process, industry participants have already expressed major concerns including that OFA:

- is a radical change to the wholesale market to address some minor problems
- will increase costs for consumers
- does not alleviate transmission congestion and merely changes the symptoms
- is extremely complex and affects the fundamental operation of the National Electricity Market (NEM) and is consequently a high risk solution

These are supported by analysis by Frontier Economics, undertaken on behalf of AGL, Origin, Snowy Hydro, Stanwell and Hydro Tasmania. Their report contains both quantitative modelling and a qualitative assessment. The report can be found at: <http://www.frontier-economics.com.au/publications/optional-firm-access-design-testing-response-aemcs-first-interim-report/>

In addition to these concerns, the AEMC are now positioning OFA as a good solution for different conditions¹:

The Commission considers that optional firm access could help the market adapt in an environment of major changes in the capital stock requiring significant investment and characterised by high levels of uncertainty with respect to relative costs, technologies and hence location decisions.

This concept raises further concerns: The siting of new generation investment is determined by a number of parameters of which transmission is one. In the foreseeable future, solar PV may overtake wind as the cheapest renewable and the potential location of sites could be much more flexible as the resource is more evenly spread.

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The environmental approvals for transmission are now so complex and take so long that generation needs to follow transmission. The timeframe for generation projects is significantly shorter than that for transmission lines. This asymmetry in development timeframes will undermine any likelihood of generation impacting on transmission development in any meaningful way.

The triggers for review of OFA that AEMC foresee are those caused by increasing renewables. This increase in renewables will result in an increased prevalence of stability constraints. Such stability constraints have not been adequately addressed by OFA, hence its use would be entirely inappropriate under these circumstances.

Hydro Tasmania believes that OFA is a fundamentally flawed model which does not address the major issues which will dominate transmission in the future. We are particularly concerned that AEMC should suggest that there be a regular review of its suitability. There is no need for this. Should COAG Energy Council feels that the conditions might be met then they could request a review be undertaken and all options considered. Having a routine review of a solution in search of a problem is not good use of either AEMC's resources or the resources of participants.