

4 September 2014



**AUSTRALIAN  
CONSERVATION  
FOUNDATION**

John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

*RE: Stakeholder comment on Optional Firm Access Design and Testing: First Interim Report  
(Reference: EPR0039)*

Dear Mr Pierce,

This document outlines the Australian Conservation Foundation's (ACF) stakeholder feedback on the Optional Firm Access First Interim Report.

### **About ACF**

The Australian Conservation Foundation (ACF) welcomes the opportunity to provide a submission to the Australian Energy Market Commission on the Optional Firm Access Market Review (ref: EPR0039).

ACF is committed to inspiring people to achieve a healthy environment for all Australians. For almost 50 years ACF has been a strong voice for the environment, promoting solutions through research, consultation, education and partnerships. ACF is Australia's leading national not-for-profit environment organisation, funded almost entirely by our members and supporters.

### **Contact details for this submission**

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## **ACF's position on OFA and key recommendations**

**1. It is unclear how the OFA addresses the 'changing demand and generation patterns' impacting the NEM.**

Recommendation: Future reports need to more clearly link the identified issues facing the NEM with identified solutions.

**2. Cost to consumers of energy grid pollution should be considered in BCA.**

Recommendation: Non-market costs of the NEM should be included in the planned benefit-cost analysis of OFA. Infrastructure Australia's benefit-cost framework may provide some guidance in this regard.

**3. OFA as currently proposed would represent an unjustified subsidy to existing generators and potentially limit investment in lower emissions generation capacity.**

Recommendation: Generators shouldn't receive free access as is currently proposed under the OFA.

**4. OFA transfers risks to consumers**

Recommendation: No recommendation. The Australian Conservation Foundation seeks comment or clarity from AEMC on this matter.

**5. It is too difficult for civil society and consumer groups to engage with this issue.**

Recommendation: Additional documents need to be provided to summarise and simplify OFA for groups that lack access to NEM and energy market technical specialists. The appropriate level of detail is something akin to the Fact Sheet on the National Electricity Market.<sup>1</sup>

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<sup>1</sup> Australian Energy Market Operator (no date) Fact Sheet: The National Electricity Market.

## 1. It is unclear how the OFA addresses the 'changing demand and generation patterns' impacting the NEM.

As the First Interim Report Overview states:

*The electricity sector's evolution will depend on a number of factors, which can include: policy settings, the growth of local generation, structural changes in the gas sector, new patterns of consumption and technological change. (p.1)*

In response to this, the OFA appears to focus on one aspect of the NEM, uncertainty facing generators and transmission network operators.

*Without effective integration between the transmission and generation sectors there is potential for a lack of co-ordination and inefficient outcomes (p.3)<sup>5</sup>*

Similar uncertainty could also, however, be said to exist between generators and retailers.

Solutions that consider the entire NEM are necessary to avoid further unintended consequences.

OFA appears to address the issue of financing generation in the face of uncertainty. But it doesn't address other issues of importance, specifically: *"the growth of local generation...new patterns of consumption and technological change"* (p.1)<sup>5</sup>

**Recommendation:** The second interim report should more clearly link the identified issues facing the NEM with identified solutions.

## 2. Cost to consumers of energy grid pollution should be considered in BCA

The National Electricity Objective is too narrow to identify the costs and benefits to consumers, given that electricity supply is in a state of transition. It ignores the fact that consumers also bear the cost of pollution from the NEM. The lowest total cost to consumers is a combination of lower retail charges as well as lower costs from pollution. The OFA, as proposed, would potentially discourage investment in lower emissions generation technologies and could have unintended non-market consequences for consumers.

**Recommendation:** Wider costs of the NEM should be included the planned cost-benefit analysis of OFA. Infrastructure Australia’s benefit-cost framework may provide some guidance in this regard.<sup>2</sup>

### 3. OFA as currently proposed would represent an unjustified subsidy to existing generators and potentially limit investment in lower emissions generation capacity

We do not support the first core element listed in Table 10.1 of the first interim report.<sup>3</sup>

*Existing generators are allocated some transitional access, at no charge (p.107)*

We believe it will largely benefit existing and more heavily polluting generators, discouraging investment in newer and less polluting generation technologies<sup>4</sup>. Existing generators are also already connected to transmission networks while new generators, particularly large scale renewable generators, often require new transmission infrastructure.

Section 9.3.3 of the First Interim Report suggests that granting existing generators access free of charge does not represent a barrier to entry or significant competitive advantage. While for practical purposes this is true in that they can obtain firm access through trading or via a TNSP, it gives existing generators an unfair advantage to new entrants who would have to pay for access.

In this regard, we believe that OFA would represent an unjustified windfall gain to generators.

**Recommendation:** Existing generators shouldn’t receive free access as is currently proposed under the OFA.

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<sup>2</sup> See page 12 of

[http://www.infrastructureaustralia.gov.au/priority\\_list/files/Infrastructure\\_Priority\\_List\\_Submission\\_Template\\_Stage\\_7-Communications\\_Dec\\_2013.pdf](http://www.infrastructureaustralia.gov.au/priority_list/files/Infrastructure_Priority_List_Submission_Template_Stage_7-Communications_Dec_2013.pdf)

<sup>3</sup> Australian Energy Market Commission (2014) First Interim Report: Optional Firm Access, Design and Testing, reference: EPR0039

<sup>4</sup> We note that the Centre for Energy and Environmental Markets has covered this issue in detail, see: Riesz, Gilmore and MacGill (2014) Working Paper on the proposed Optional Firm Access model for the Australian National Electricity Market. CEEM Working Paper, May 2014, Sydney, NSW.

#### 4. OFA transfers risk to consumers

As proposed, the OFA would act to reduce risk and uncertainty to generators and TNSPs arising from future changes in demand and generation technology. The risk and uncertainty facing the industry is due to a number of factors, highlighted by the First Interim Report Overview, and already mentioned above:<sup>5</sup>

*Change will be a continuing feature into the future; what the future holds is uncertain. The electricity sector's evolution will depend on a number of factors, which can include: policy settings, the growth of local generation, structural changes in the gas sector, new patterns of consumption and technological change. (p.1)*

OFA is intended to reduce risks to generators caused by the electricity sector's 'evolution'. But disruptive changes to the sector may mean that ultimately, the OFA may eventually be against the best interests of consumers.

**Recommendation:** No recommendation. Comment or clarity sought on this matter.

#### 5. It is difficult for consumer and civil society groups to engage with the issue

OFA is intended to deliver better outcomes for consumers.<sup>6</sup> The highly technical nature of the discussions, however, potentially exclude civil society and consumer groups who represent those very consumers.

We recognise that these matters involve in-depth technical knowledge, but more work is needed to explain the background, issues, solutions and impacts pertaining to OFA. The purpose of this documentation is ultimately to help civil society and consumer groups understand the impacts on their constituents.

**Recommendation:** Additional documents need to be provided to summarise and simplify OFA for groups that lack access to NEM and energy market technical specialists. The appropriate level of detail is something akin to the Fact Sheet on the National Electricity Market.<sup>7</sup>

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We recognise that structural issues exist with the National Electricity Market that need to be addressed.

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<sup>5</sup> Australian Energy Market Commission (2014) First Interim Report: Overview Report – Optional Firm Access, Design and Testing.

<sup>6</sup> Australian Energy Market Commission (2014) Optional Firm Access, Design and Testing – Information Sheet.

<sup>7</sup> Australian Energy Market Operator (no date) Fact Sheet: The National Electricity Market.

We support AEMC and AEMO's efforts to address the changing nature of the electricity market in Australia but oppose any changes that create additional barriers to exit for existing generators and barriers to entry for newer less polluting generators. We also encourage the inclusion of non-market impacts in any benefit-cost analysis undertaken for OFA.