Agenda

Optional firm access: design and testing
Industry working group

Meeting 2

Date:	1 May 2014
Time:	10am to 3pm (a light lunch will be provided)
Location:	AEMC Office Level 6, 201 Elizabeth Street Sydney NSW 2000

1. Introduction and welcome – AEMC
2. Firm access standard – AEMC
3. Methodology for transitional access allocation – AEMO
4. Methodology for transitional access sculpting – AEMC
5. Reliability access – AEMC
6. Arguments against OFA – AEMC
7. Next meeting

Optional Firm Access Working Group Meeting 2

1 May 2014

The second working group meeting was held in Sydney on 1 May 2014. The attendees of the meeting are listed below.

Member	Organisation
Ben Skinner	AEMO
Brian Nelson	AEMO
Jamie Lowe	Alinta Energy
Ken Harper	Alinta Energy
Ralph Griffiths	EnergyAustralia
Victor Petrovski	EnergyAustralia
Kevin Ly	Snowy Hydro
Peter Nesbitt	Hydro Tasmania
Jennifer Tarr	Stanwell
John McDonald	Infigen
Brad Harrison	ElectraNet

The AEMC's project team attended and is listed below.

Name	Position
Anne Pearson	Senior Director
Richard Khoe	Director
Stuart Slack	Senior Adviser
Alex Fattal	Adviser
Victoria Mollard	Adviser
Dave Smith	Creative Energy Consulting
Greg Hesse	Secondee from Powerlink

All enquiries on this project should be addressed to Victoria Mollard on (02) 8296 7800.

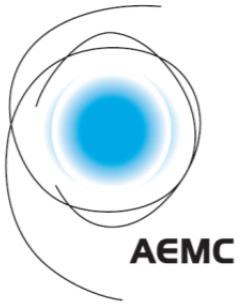
In line with the Terms of Reference for this project, the AEMC has formed the working group to provide technical advice and to help with assessing the potential impacts of the optional firm access model on industry. The working group is shared with AEMO, who will also bring matters for discussion. The AEMC has also formed an Advisory Panel to provide strategic advice on high-level issues.

Optional Firm Access Working Group Meeting 2

1 May 2014

The following items and points were discussed at the meeting:

- **Firm Access Standard:**
  - The AEMC discussed its current thinking on the definition of the firm access standard. The firm access standard as set out in the Transmission Framework Review relied on a distinction on whether constraints occurred during normal or abnormal operating conditions. However, the AEMC's initial design work has indicated that such a distinction between normal and abnormal operating conditions may be difficult to make.
  - The AEMC discussed its initial thinking on a revised Firm Access Standard which would require the TNSPs to meet a Firm Access Planning Standard (FAPS) and a Firm Access Operating Standard (FAOS).
  - Participants noted that some constraints may bind in non-peak situations. Construction of a network to meet the planning standard at peak times, may not provide access at non-peak times.
  - Participants also noted that the effective operation of the operating standard is highly reliant on the design of the incentive scheme (which was not presented at the meeting).
  - A participant noted that the risk and value to generators may be greater in abnormal operating conditions and that this should be reflected in different incentives/caps at these times. This may then require flowgate tagging. Generators are particularly concerned about incentives and who compensation for shortfalls should go to.
  - A participant commented that it considers that the current OFA model represents a "socialised" approach to firm access and that ideally generators should have a bilateral agreement with TNSPs, which could even set specific standards. It was also commented that it comes down to accurate pricing.
- **Initial transitional access allocation:**
  - AEMO presented on the method for how the allocation of initial firm access (ie what would be allocated to generators in transition) would occur. AEMO is applying a method for allocating transitional access that was set out in Chapter 10 of the Technical Report for the Transmission Frameworks Review.
  - Note no values of transitional access allocation were presented in this meeting.
  - Participants noted that the process and method for allocating transitional firm access must be transparent.
  - Participants also noted that the method described is rather conservative in determining initial transitional allocation, and there will likely still be unallocated capacity in the network. Questions were raised around the method for setting peak conditions for transitional allocation.
- **Transitional access sculpting:**
  - The AEMC presented on the method for determining how the initial allocation of transitional access would be "sculpted" over time. This was set out in Chapter 10 of the Technical Report for the Transmission Frameworks Review. The method includes a number of algebraic terms that represent different factors that would be applied in the sculpting period ("transition variables").
  - The AEMC noted that the determination of how much, and how quickly, initial allocations of access are sculpted back over time involves trade-offs.



- A number of participants considered that the AEMC has not made a clear case for sculpting access as part of the transition to optional firm access. Rather they considered that access should be held constant at the initially allocated level for a set period of time. Some generators noted that sculpting would not be necessary because secondary trading of initial allocations would be sure to happen.
- The AEMC noted that it has engaged a consultant to develop a set of economic principles for how these transitional variables should be set. The AEMC will organise a teleconference between the consultant and working group participants, so that participants' views about sculpting may be shared with the consultant.

- **Reliability access:**
  - Under the optional firm access model, TNSPs would still be required to meet the current reliability standards. A TNSP considering an augmentation of its network to meet its reliability standard would need to undertake a Regulatory Investment Test for Transmission (RIT-T) to determine the least cost option.
  - The AEMC presented a proposal to allow generators to indicate a preference for a particular augmentation option in the RIT-T assessment, which would release firm access to the generator.
  - Generators would be able to bid in a contingent auction to fund part of the augmentation, which would be included in the TNSP's RIT-T assessment.
  - When the TNSP decided on which proposal to build, the generator associated with the successful proposal would partly fund the augmentation and in return receive some level of firm access.
  - Participants noted that they considered that more transmission would be built under the optional firm access, than what is optimal from a whole of society basis.
  - Participants noted that the contingent auction may result in a "prisoner's dilemma", where generators would be compelled to participate in the auction. Comments were also made that this may make the RIT-T process more complicated and that it may result in some generators bidding strategically to keep other generators out.
  - It was also commented that rather than an auction it might be better for the TNSP to solicit bids.
- **Arguments against optional firm access:**

  The AEMC presented a list of potential negative impacts of the model (eg increased complexity) to the working group. This was prepared in response to a request from the Advisory Panel. We also presented our preliminary thoughts on how these impacts would be assessed.