

Agenda

**Optional firm access: design and testing
Industry working group**

Meeting 6

Date: 1 December 2014
Time: 10am to 4pm
Location: AEMC Office
Level 6, 201 Elizabeth Street
Sydney NSW 2000

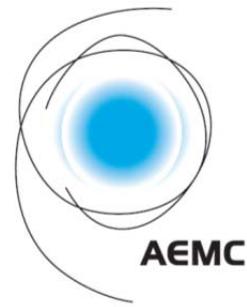
- 1. Introduction and welcome**
- 2. Governance**
- 3. Inter-regional access**
- 4. Update on assessment work**

Lunch

- 5. Historical variability of the network**
- 6. Implications for SRAs**
- 7. Procurement and queuing**
- 8. Revenue Regulation**
- 9. Next meeting**

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

Member	Organisation
Anders Sangkuhl	Alinta Energy
Chris Deague	GDF Suez Australian Energy
Ben Haywood (via phone) (replacement for Ralph Griffiths)	EnergyAustralia
Kevin Ly	Snowy Hydro
Peter Nesbitt	Hydro Tasmania
Jennifer Tarr	Stanwell
Liam Reid (replacement for John McDonald)	Infigen
Greg Hesse	Powerlink
Brad Harrison	ElectraNet
Craig Oakeshott	AER
Jess Hunt	AEMO
Ben Skinner	AEMO

Victor Petrovski (Energy Australia) was an apology for the meeting.

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

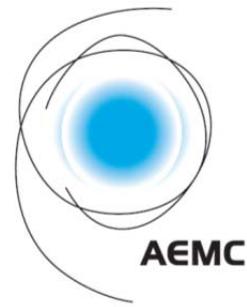
Name	Position
Anne Pearson	Senior Director
Richard Khoe	Director
Victoria Mollard	Senior Adviser
Tom Walker	Senior Adviser
Alex Fattal	Adviser
Dave Smith	Creative Energy Consulting

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.

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The following items and points were discussed at the meeting:

- **Introduction and welcome**

- AEMC staff noted that they are considering, if a recommendation was made to implement optional firm access, whether Tasmania would be included in this recommendation (or whether the recommendation would be to include Tasmania in optional firm access at some later stage). Our preliminary view is that there would be higher implementation costs in Tasmania (due to a number of technical characteristics of the region), with lower benefits (due to the current market structure). AEMC staff noted that they will be considering this issue further over the coming months, with a draft view contained in the Draft Report, including details of the technical difficulties encountered. The AEMC undertook to investigate the extent to which these issues may reveal themselves in other regions.
- A point was made by a stakeholder that we should be careful about “balkanising” the NEM.

- **Governance**

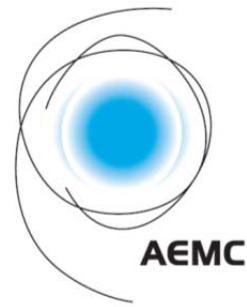
- The AEMC presented on the proposed governance arrangements for optional firm access.
- This included a discussion on the nature of the relationship between the generator and transmission businesses for the purpose of OFA.
- AEMC staff set out that since the TNSPs’ obligations under optional firm access are essentially regulatory in nature, the firm access model should be based on Rules-based certificates recording access rather than on a bilateral contract between generator and TNSP. This was reasonably well supported by attendees.
- The rest of the discussion focussed on which bodies the AEMC considers would be best placed to be responsible for the functions required under optional firm access.
- A number of stakeholders asked questions about the enforcement of the Firm Access Planning Standard.
 - It was noted that the arrangements would require changes to the TNSPs Annual Planning Reports, in order for more detail to be provided. With the additional details participants would be better placed to monitor TNSP efforts to meet the Firm Access Planning Standard.
 - Stakeholders also observed that the AEMC’s proposed enforcement of the Firm Access Planning Standard would likely include the creation of a conduct provision.
 - Other stakeholders supported a review of the Firm Access Planning Standard by the Reliability Panel.
- There was also some discussion around bilateral trading, and how this would occur.
- In respect of the governance of transitional access, a stakeholder commented that some thought should be given to when transitional allocations are made and the sequencing of this with introduction of other elements of the model.

- **Inter-regional access**

- The AEMC presented on proposed principles for the auction to be used to purchase firm interconnector rights.
- Some stakeholders raised concerns about how stability constraints would be represented under the proposed methodology. The AEMC noted that this is still an area that it is considering.

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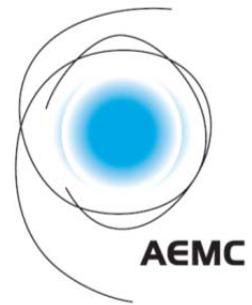
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- Some generators were concerned that any differences in methodology for determining prices for inter and intra-regional access may lead to inefficient outcomes due to the same network build costing different amount under different procurement methods.
 - **Update on assessment work**
 - The AEMC presented on its progress in its assessment of optional firm access.
 - The AEMC described some of the modelling undertaken to examine the impact of optional firm access under different scenarios.
 - Stakeholders requested that the input data for the different scenarios be consistent with data sets consistent with other studies of the future of the NEM and that these are well understood by market participants.
 - Some working group members also requested that the assessment include a case study of how recent network augmentations (eg, Heywood interconnector upgrade) may have differed if optional firm access was present.
 - **Historical variability of the network**
 - The AEMC presented some analysis on the nature of binding constraints over the last year and how they would have been treated under the TNSP incentive scheme.
 - The working group noted that most of the observed binding constraints with market impacts were under system normal conditions. This could indicate that the existing STIPIS is leading to changes in TNSPs' behaviour under abnormal conditions.
 - **Implications for Settlement Residue Auctions**
 - AEMO presented on how the existing settlement residue auction (SRA) would be transitioned to the firm interconnector rights auction, following the introduction of optional firm access.
 - Stakeholders noted that they would support a notification period for the cancellation of SRAs of three years, so that holders of SRAs are not caught out.
 - **Procurement and queuing**
 - The AEMC presented on proposals on how requests for firm access would be ordered or queued. The order of access requests is important since the price faced by a generation applicant for firm access is influenced by the order the applications are processed.
 - Stakeholders discussed whether it would be preferable to have the queue operate as "first come first served" or with a randomised order for applications placed well in advance of the procurement timeframe. Some stakeholders expressed concern about a random approach.
 - **Revenue regulation**
 - The AEMC presented on a recommended method of adjusting TNSP revenues so that TNSPs would have no incentive to front load firm access payments in order to create windfall gains/losses.
 - Stakeholders were in general agreement on the AEMC's proposal.

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- **Next Meeting and Reports**

- AEMO will publish a draft report by late December 2014 or early January 2015.
- The AEMC will publish a draft report and the draft assessment in February 2015. There will be no further working group meetings before the publication of this report.