



Optional firm access review – Publication of draft report

Optional firm access would represent a new approach to generation and transmission investment in the National Electricity Market. 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.

Draft report

As requested by the COAG Energy Council the AEMC has designed, tested and assessed the costs and benefits of the optional firm access model to address issues related to co-ordination between transmission and generation in the National Electricity Market under circumstances of changing energy demand and supply. The Commission's Draft Report was published on 12 March 2015.

Draft assessment

Absent some major shift in market conditions and government policy settings, implementation of the optional firm access model would not contribute to achievement of the National Electricity Objective.

If drivers emerge of a major transformation of the generation and transmission capital stock, where the outcomes are highly uncertain, the existing mechanisms for co-ordinating generation and transmission operations and investment may prove inadequate. In these conditions, the balance of expected benefits and costs of optional firm access would shift in favour of implementation.

If the conditions for optional firm access emerge, considerable resources and lead times will be required for implementation. Accordingly, market conditions should be monitored for indicators of these drivers. This could be undertaken as an adjunct to the Commission's existing annual Last Resort Planning Power functions.

Alternatives to optional firm access

A number of stakeholders have also proposed either simplified versions of optional firm access, or alternatives, as part of submissions to the Commission's request for comment. The Commission will further consider such options and the effectiveness of them, prior to producing the Final Report.

Previous reviews on similar issues

A foundation principle of the National Electricity Market (NEM) is that generation investment decisions are made by businesses operating in a competitive environment, not regional centralised utilities.

The result is that risks associated with generation investment rest with those businesses. Transmission investment decisions remain the province of regional, centralised transmission bodies. Transmission businesses are subject to regulation of their revenues for the provision of transmission services, and various other obligations relating to reliability and investment decision making processes.

The way the transmission and generation investment decision making processes interact and, in particular their operational consequences, have been a consistent instigator of reports and reviews throughout the life of the NEM. Since 1997 there have been no fewer than eleven major reports and reviews dealing with various aspects of congestion management and generator access to the transmission network. Given the extensive

work undertaken on the design and testing of optional firm access, the intent of the Commission is for this to be the last such report in this area for many years to come.

Tasmania

If optional firm access were to be implemented, Tasmania would be excluded from the optional firm access model in the first instance, assuming elements of the Tasmanian market remain as they are currently. The technical challenges for optional firm access are greater in Tasmania and the benefits are currently lower.

What is optional firm access?

Optional firm access would change the way in which transmission and generation investment decisions are made, and would mean generators would bear more of the risk, associated with some transmission investment. Generators could choose to pay for a specified level of access to the transmission network in order to manage the financial impacts of network congestion. Specifically:

- Generators would fund and guide the development of the new transmission that underpins their access rights, both within regions and between regions.
- Generators would bear the indicative costs of transmission development undertaken to support their access decisions.
- Generators would have the option of purchasing a level of firm access rights to manage congestion risk, which might be for all or part of their generating capacity. These financial rights would entitle the holders to receive compensation payments where congestion occurs. The payments would be funded by those generators who were dispatched in excess of the level of firm access rights, if any, that they have purchased.
- Generators would have the option of not holding firm access rights for any generating capacity. Such generators would not bear any indicative costs of transmission development.

Next steps

Submissions on the Draft Report are due by 30 April 2015.

The Commission will prepare a Final Report to be released in accordance with the Terms of Reference in the middle of 2015.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800

AEMC Chief Executive, **Paul Smith** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

Date: 12 March 2015