



30 April 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

OPTIONAL FIRM ACCESS REVIEW – PUBLICATION OF DRAFT REPORT

Alinta Energy (**Alinta**) welcomes the opportunity to make a submission in response to the *Optional Firm Access, Draft Report (the Report)* and appreciates the detailed work undertaken by the Australian Energy Market Commission (**AEMC**) to date.

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing retail customer base of over 820,000.

Alinta is a member of the Optional Firm Access (**OFA**) industry working group hosted by the AEMC.

Draft assessment

Alinta notes the Report's draft findings that:

- If enacted at this point in time, the OFA model would not contribute to the achievement of the National Electricity Objective and as such should not be progressed.
- Whilst OFA may not be pertinent or beneficial to the development of the National Electricity Market (**NEM**) at this point in time, future changes in market conditions could make the OFA methodology relevant. As such, the AEMC has proposed to undertake the monitoring of key market indicators on an annual basis, similar to the AEMC's existing last resort planning powers. This would allow the AEMC to determine whether the market conditions which may justify OFA implementation emerge.
- Several participants offered support for a simplified or alternative version of OFA which may have the potential to be implemented in isolation to the broader OFA methodology. The AEMC has undertaken to give some consideration to these potential options.
- If OFA were to be implemented Tasmania would be excluded from the model, at least in the first instance, due to unique specific technical challenges for the region.

Alinta's views

Benefits of OFA

Since the finalisation of the AEMC's 2013 *Transmission Frameworks Review*, Alinta has supported the AEMC's efforts to review a number of identified generator specific concerns within the NEM including:

- Access to transmission;

- Risk of asset stranding;
- Transmission planning; and
- Significant, unmanageable transmission congestion preventing access to market.

Whilst these issues may be less concerning for larger entities with significant and geographically dispersed portfolios, Alinta has maintained the view that second tier retailers and new entrant participants could benefit from a newly designed and innovative network planning methodology which looks to achieve the following objectives:

- The provision of access pricing to the market, enabling the market to better adapt to changing conditions, particularly demand and generation patterns.
- The introduction of commercial drivers on transmission businesses, and commercial financing of transmission infrastructure, thus minimising the total cost of building and operating the system over time and subsequently minimising prices for electricity consumers.
- The co-optimisation of generation and transmission investment by promoting the efficient utilisation of spare network capacity.
- The shifting of some transmission investment risk away from consumers.
- The enablement of generators to signal where they value transmission capacity.

Since the initiation of the OFA process Alinta has supported the review in seeking to achieve these objectives.

Decision to not proceed with OFA

On balance Alinta supports the AEMC's decision not to implement OFA at this point in time.

In Alinta's view, implementing the OFA methodology in its entirety to deal with the relatively minor issues of bidding behaviour or transmission constraints would be a disproportionate response given the present market conditions. This is especially true given the various complexities and unknown components associated with implementing the present OFA model in its entirety.

Implementation at a future date

Alinta is broadly supportive of the report's recommendation that there should be regular monitoring of NEM market conditions to assess if signs emerge that NEM conditions are changing in a way that may make the benefits of OFA become relevant.

As outlined within the report, should NEM market conditions evolve such that congestion became more significant or distortive; then Alinta would be supportive of OFA being reviewed for potential implementation. As outlined in the report it is intended that the AEMC would undertake an ongoing monitoring process to identify the investment environment to determine if conditions are right and would warrant OFA being revisited. The AEMC has suggested that the initial indicators that would trigger a reconsideration of OFA could include:

- Changes to NEM emission costs;
- Changes to the costs of generation investment; and
- Level of NEM wide demand.

Alinta agrees with the inclusion of these indicators and would additionally suggest the following indicators also be included:

- An increased frequency of bi-directional flows along the interconnectors which may have implications for regional Frequency Control Ancillary Service prices;
- A higher penetration of intermittent generation which could risk asset stranding in certain regions;
- Increased frequency or magnitude of transmission congestion; and
- Increased presence of network system inertia, which may lead to system security issues and subsequently generators becoming stranded at certain times.

The report proposes the AEMC be responsible for monitoring of the occurrence of these conditions, to be undertaken annually at the same time as the AEMC's existing last resort planning powers on an annual basis. However, in Alinta's view the market conditions required to make OFA relevant would be highly unlikely to singularly develop in an individual year, given the magnitude of the changes required. As such, Alinta would be supportive of the AEMC reviewing whether the market conditions to trigger a reconsideration of OFA have arisen on a bi-annual basis. This would ensure economic efficiency of the process by preventing the unnecessary use of AEMC and participant resources annually.

Alternative versions of OFA

Alinta has consistently advocated that several aspects of OFA can be progressed in absence of the broader OFA methodology, and that if a less complex scaled back version of OFA was proposed which addressed the initial concerns raised by industry participants in the Transmission Frameworks Review, it is highly likely to result in greater support from industry participants.

The report notes that a number of participants have proposed simplified versions of OFA, or alternatives, as part of submissions to the AEMC's request for comment. Alinta is supportive of the AEMC further considering such options and the effectiveness of them, prior to producing the Final Report. In particular, Alinta supports an abridged OFA methodology being developed by the AEMC which:

- brings forward individual components of OFA for potential staging over the shorter term; and
- enables core aspects of the methodology that are supported by industry to be implemented in a timely manner.

For example Alinta is still particularly interested in the following components:

- **Inter-regional Firmness** - Alinta is particularly interested in inter-regional firmness and sees this as one of OFA's potential major benefits. Alinta is interested in the AEMC considering if access settlement could be progressed in a form for the purpose of firming inter-regional settlement residues only.

Under this approach, the purchase of access rights over the inter-connector which has a known measureable capacity would create a financial right. This right would be different to the intra-regional rights that exist only in the planning domain against which settlement would not be adjusted in the face of intra-regional constraints.

Alinta appreciates this issue requires further consideration but notes that improved inter-regional competition was one area which industry participants were broadly supportive of at the beginning of the transmission frameworks review process.

- **Reform at the planning level** – The absence of obligations on the transmission network service provider to upgrade or maintain the line to remote assets, or generation assets per

se, is an oversight that Alinta believes requires rectification. Whether OFA remains the right pathway to progress a solution to this issue is however less clear.

Whilst the OFA model is not solely directed at these concerns as it deals with a wider range of issues, Alinta considers that these individual components represent moderate and measured reform that could satisfy generators without requiring large-sale market reform. Alinta would be supportive of the AEMC raising such options in its final report.

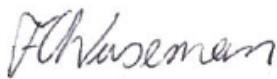
Conclusion

Alinta broadly agrees with the primary recommendation not to implement the OFA model at this time. Alinta additionally supports the AEMC undertaking bi-annual monitoring as to whether the NEM's conditions have changed and therefore should trigger reconsideration of OFA.

Concurrent to this primary recommendation, Alinta additionally supports and encourages the AEMC to progress individual components of the OFA model such as inter-regional firmness on an individual basis, and suggests that such an approach will likely find increased support from industry.

If you have any queries in relation to this submission please do not hesitate to contact Mr Anders Sangkuhl on, telephone, (02) 9375 0962.

Yours sincerely,



Fiona Wiseman
Wholesale Regulation Manager