

## **Agenda**

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

### **Meeting 4**

Date: 25 August 2014

Time: 2pm to 4pm

Location: Teleconference

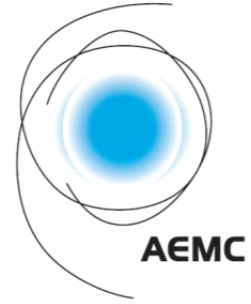
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### **Agenda**

- 1. Pricing in the Optional Firm Access model**
  - a) Recap of pricing in the Optional Firm Access model – AEMC**
  - b) Demonstration of prototype LRIC pricing model – AEMC**
  - c) Treatment of replacement expenditure in the LRIC pricing model – AEMC**
- 2. Next meeting**

# Optional Firm Access Working Group Meeting 4

25 August 2014



The fourth working group meeting was held in Sydney on 25 August 2014. The attendees of the meeting are listed below, all of whom attended via teleconference.

Member	Organisation
Ben Skinner	AEMO
George Huang	AEMO
Jess Hunt	AEMO
Craig Oakeshott	AER
Jamie Lowe	Alinta Energy
Victor Petrovski	EnergyAustralia
Bradley Harrison	ElectraNet
Chris Deague	GDFSuez
Peter Nesbitt	Hydro Tasmania
Liam Reid	Infigen Energy
Greg Hesse	Powerlink
Kevin Ly	Snowy Hydro
Jennifer Tarr	Stanwell
Luke Van Boeckel	Stanwell

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

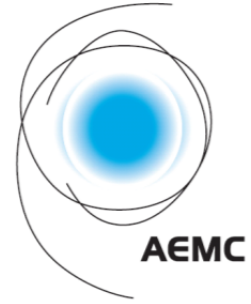
Name	Position
Richard Khoe	Director
Victoria Mollard	Senior Adviser
Stuart Slack	Senior Economist
Tom Walker	Senior Adviser
Suzanne Falvi	Senior Lawyer
Alex Fattal	Adviser
Dave Smith	Creative Energy Consulting
Sacha Blumen	ACIL Allen Consulting

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

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discussion. The AEMC has also formed an Advisory Panel to provide strategic advice on high-level issues.

The following items and points were discussed at the meeting:

## 1. Pricing in the Optional Firm Access Model

### a) Recap of pricing in the Optional Firm Access model

- The AEMC presented a recap on pricing of firm access within the OFA model. This summarised the recommendation made in the Transmission Frameworks Review that access prices would be calculated using a long run incremental costing (LRIC) method.
  - Some participants were concerned that the LRIC pricing model is highly reliant on assumptions and forecasts (for example with regard to future demand for inter- and intra-regional firm access), which may impact the accuracy of the pricing model, and hence the efficiency of the pricing signals.
  - Questions were also raised by participants regarding the governance of the pricing model and how inputs are determined. The AEMC is currently working on this issue.
  - One participant questioned whether there were other alternatives to LRIC pricing that linked to actual costs.

### b) Demonstration of prototype LRIC pricing model – AEMC

- The AEMC demonstrated a prototype of the LRIC pricing model.
- The AEMC noted that the TNSPs are currently calibrating the prototype pricing model, and that the AEMC intends to publish the calibrated prototype pricing model with its supplementary report on pricing in September 2014.
- The AEMC outlined some indicative outputs from the model.
  - Participants explored the theoretical and indicative numerical differences between the LRIC pricing approach and alternatives, such as deep connection charges.
  - It was noted that further work can be undertaken to empirically examine the difference between the LRIC pricing approach and alternative approaches, such as deep connection charges. The AEMC will undertake such work over the coming months.

### c) Treatment of replacement expenditure in the LRIC pricing model – AEMC

- The AEMC presented a possible modified design feature of the LRIC pricing model to include replacement network expenditure as part of the modelled firm access price.
  - A number of participants felt that this may be an improvement on the current design of the LRIC pricing model, particularly given the current slowing or declining demand outlook.
  - Other participants noted it introduced more complexity, and that the assumptions required to model replacement expenditure (such as asset lives) may be crude.