

## **Agenda**

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

#### **Meeting 5**

Date: 15 October 2014  
Time: 10am to 3pm  
Location: AEMC Office  
Level 6, 201 Elizabeth Street  
Sydney NSW 2000

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#### **Coffee on arrival**

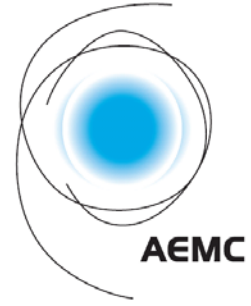
- 1. Introduction and welcome**
- 2. Initial assessment work**
- 3. Access settlement simulations**
- 4. Transitional Access**

#### **Lunch**

- 5. Access settlement issues**
- 6. Sellback of access**
- 7. Next meeting**

# Optional Firm Access Working Group Meeting 5

15 October 2014



The fifth working group meeting was held in Sydney on 15 October 2014. The attendees of the meeting are listed below.

| Member           | Organisation                                       |
|------------------|--|
| Ben Skinner      | AEMO   |
| Ross Gillett     | AEMO   |
| George Huang     | AEMO   |
| Anders Sangkuhl  | Alinta Energy (via phone for parts of the meeting) |
| Ralph Griffiths  | EnergyAustralia                                    |
| Victor Petrovski | EnergyAustralia (via phone)                        |
| Kevin Ly         | Snowy Hydro  |
| Peter Nesbitt    | Hydro Tasmania                                     |
| Jennifer Tarr    | Stanwell   |
| John McDonald    | Infigen  |
| Chris Deague     | GDFSuez  |
| Craig Oakeshott  | AER (via phone for parts of the meeting)           |
| Norman Jip       | TransGrid  |
| Brad Harrison    | ElectraNet   |

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

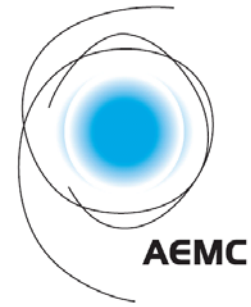
| Name             | Position                   |
|------------------|----------------------------|
| Anne Pearson     | Senior Director            |
| Richard Khoe     | Director                   |
| Victoria Mollard | Senior Adviser             |
| Tom Walker       | Senior Adviser             |
| 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**

- The AEMC presented its revised project plan and noted the timing of future publications. An outline of the updated project plan is available on the optional firm access detailed design and testing webpage.
- The AEMC will publish a supplementary report on pricing in late October 2014.
- A draft report including our draft assessment of optional firm access, and our draft recommendation on whether to progress optional firm access or not, will be published in February 2015.
- AEMO will publish a draft report on the issues they are examining as part of their terms of reference in December 2014.
- Both AEMO and AEMC's final reports will still be provided to the COAG Energy Council by mid-2015, consistent with our terms of reference.

- **Initial assessment work**

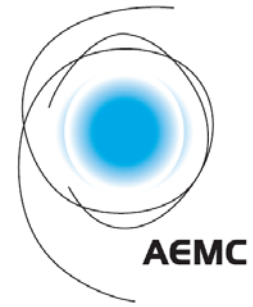
- The AEMC presented on the initial assessment work that has been undertaken in order to assess whether the optional firm access model would contribute to the National Electricity Objective.
- The AEMC presented on a paper prepared by ROAM Consulting. This paper is a qualitative assessment of how changes in the market and to the Optional Firm Access model would impact the results of modelling that ROAM Consulting undertook to assess Optional Firm Access as part of the Transmission Frameworks Review.
- ROAM Consulting concluded that some of their assumptions, such as the forecast level of demand and the operation of environmental policies could be updated to take into changing market conditions as well as changes to the Optional Firm Access model.
- The AEMC has requested that ROAM Consulting update their modelling to take into account the changes identified. The AEMC has also requested that ROAM Consulting undertake sensitivities to examine scenarios such as transmission assets replacement not occurring in situations where it isn't signalled by access requests and an increase in demand.
- Some stakeholders noted that modelling the life of transmission assets is a difficult task, and that there may not be so much benefit OFA offers in terms of "shrinking networks"..
- The AEMC also presented on some of the other assessment tasks that are being undertaken for this project, including assessments of implementation costs and evaluations of changes to generator bidding behaviour.
- Stakeholders observed that there have been numerous studies that have examined the cost of inefficient bidding due to constraints. The AEMC noted that the current assessment is not trying to value behaviour changes but attempt to understand what they would be.
- Stakeholders also noted that in terms of impacts on generators it is important to consider constraints other than thermal, since other types of constraints can bind alternately.

- **Access settlement simulations**

- AEMO presented on their ongoing access settlement work.

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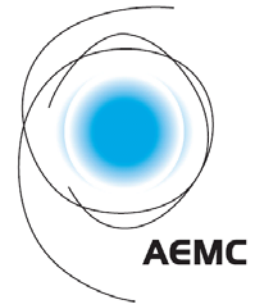
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- AEMO have been running historical trading intervals through their Dispatch Training Simulator and applying access settlement to examine how the introduction of Optional Firm Access would influence the market.
  - AEMO presented on three historic trading intervals they examined and showed how access settlement would have changed the cash flows among generators.
  - Some stakeholders raised concerns that because entitlements are linked to capacity some generators were shown to receive access payments under optional firm access when they were not generating.
  - Stakeholders also noted the importance of the SRMC assumptions for many of the calculations presented.
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- **Transitional Access**
    - The AEMC presented on progress that has been made on policy considerations relating to transitional access.
    - The AEMC noted that some stakeholders have raised concerns that the initial allocation may lead to a barrier to entry to new entrants and a wealth transfer from consumers to generators. Furthermore, some stakeholders are concerned about the low initial allocation that is expected to be allocated to interconnectors.
    - In response to this feedback, the AEMC has developed two alternative methods of allocating transitional access, in addition to the method that was set out in the First Interim Report. These are:
      - initial allocation based the methodology published in the First Interim Report;
      - an auction or series of auctions of access; or
      - a hybrid model where some access is allocated pro-rata between generators and the remainder is auctioned.
    - Under all three options, transitional access would be sculpted back over time.
    - Under any auction process, bids for firm interconnector rights would be given equal weight as bids for generator access.
    - Some stakeholders noted that if generators are required to participate in an auction than the rationale for sculpting is lessened. An alternative would be for the transitional access that was to be auctioned off would be for a defined term only.
    - Stakeholders were split in terms of their support for different options and they agreed that the AEMC should develop the options in further detail for a more thorough assessment.
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- **Access Settlement Issues**
    - The AEMC noted that under Optional Firm Access the local price faced by a non-firm generator could drop below the market price floor.
    - The AEMC presented an option of automatically linking the local price to the price floor.
    - This option would result in an altered flowgate price being seen by all generators participating in the flowgate if any node had an unaltered local price below the market price floor.
    - Stakeholders noted that the introduction of such a proposal would reduce the firmness of the access product.

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- **Sellback of Access**

- Some stakeholders have raised concerns that the optional firm access model could result in TNSPs being required to undertake an uneconomic expansion due to historical access purchases.
- The AEMC presented an option to allow generators to sell firm access back to TNSPs. TNSPs would be obliged to purchase the access at the incremental price of not meeting that access request (long run decremental cost (LRDC)).
- If a generator values access less than the cost to the TNSP of meeting the access request, the generator would be able to exercise the sellback option.
- Stakeholders raised concerns on the potential costs to consumers and the AEMC noted that there should be no overall impact on TNSPs and TUOS customers from this proposal provided the LRDC accurately estimates the avoided costs associated with the sellback.
- Some generators were also concerned about the possibility of a buy/sell spread, as they couldn't see how/why generators would want to game the option.
- Some generators also couldn't see the need for prudential requirements, given other connection applicants aren't required to pay these.
- Generally, stakeholders were not opposed to the concept of a sellback right.