Mr Paul Smith
Chief Executive Officer
Australian Energy Market Commission

Online lodgement at www.aemc.gov.au

30 January 2015

Dear Mr Smith,

RE: Optional Firm Access Request for Comment (ref EPR0039)

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC) Request for Comment on the merits of the Optional Firm Access model, and the extent to which network access issues are impacting on participants, or are likely to impact in the future.

The primary drivers for investigating transmission access arrangements were to provide improved locational signals for generation and network investment, and to provide generators with options to manage their exposure to high regional prices when subject to network congestion. These remain very important considerations for the ongoing success of the National Electricity Market (NEM).

GDFSAE has responded to each of the matters posed in the AEMC Request for Comment.

"Why stakeholders consider that the major problems that OFA is attempting to address are no longer relevant."

GDFSAE recognise that the level of concern surrounding transmission congestion and locational signals has attenuated in recent years, primarily due to the decline in electricity demand and the resultant over-supply of generation capacity in the NEM. This change in the supply-demand balance has seemingly led to fewer instances of high cost network congestion impacting on generators. Furthermore, with the most recent AEMO forecast indicating that no new generation sources are needed until beyond 2023/24[1], the focus on the need for effective locational investment signals in the near term has diminished.

Another potential contributor to the view held by some that network access is no longer an important issue is that the NEM has seen significant upgrades in network capacity in recent years. Evidence of this recent increase in network investment can be found in the Australian Energy Regulator (AER) State of the Energy Market Report 2014, which notes in section 2 that:

> *"AER determinations made from 2009 to 2011 reflected increased capital needs to replace ageing assets, meet higher reliability standards, and respond to forecasts made at the time of rising peak demand. The determinations provided for real investment to increase on average by 46 per cent, compared with the previous regulatory period."*

[1] See AEMO Electricity Statement Of Opportunities for the National Electricity Market, August 2014.

GDF SUEZ Australian Energy
Level 33, Rialto South Tower, 525 Collins Street
Melbourne, Victoria 3000, Australia
Tel. +61 3 9617 8400 Fax +61 3 9617 8301
www.gdfsuezau.com
INTERNATIONAL POWER (AUSTRALIA) PTY LTD
ABN 59 092 560 793

As is now known, the forecast growth that underpinned the increase in network capital costs did not eventuate, resulting in surplus network capacity and fewer instances of ongoing congestion.

The net effect of these changes is that the urgency to implement network access arrangements has diminished. Some participants have gone further to suggest that the previous circumstances that saw some generators substantially impacted by network congestion are unlikely to recur.

GDFSAE takes a different view being that the current lull in instances of significant network congestion provides a good opportunity to consider and implement new access arrangements, and for participants to become familiar with those arrangements before the need to apply the new measures increases.

"If the problems are no longer relevant, whether there are circumstances in which stakeholders could envision any or all of these problems becoming relevant at some time in the future? If not, why not?"

GDFSAE does not concur with the view that the problems are no longer relevant and notes that the impact of congestion in Queensland provides an ongoing focus, but does agree that the instances of network congestion have diminished in recent years. The NEM is currently facing a number of uncertainties including the extent and timing of future demand growth, technology developments and the growth of renewable generation. Given that the OFA mechanism would enhance risk management options for generators based on their own view of their risk position, GDFSAE believes that introducing OFA will enhance the industry's ability to deal with future uncertainty.

One example of uncertainty at present is over likely growth in wind generation in the coming decade. For example, Windlab[2] forecast suggest that Australian installed wind generation will increase from the current 3,800 MW to 18,000 MW by 2025.

Alternatively, AEMO predicts that only about 4,000 GWh p.a. (approximately 1,500 MW capacity) of extra wind power will be built by 2020. AEMO also note that between 6,000 to 8,000 GWh per annum will be needed to meet the current Renewable Energy Target of 41,000 GWh.

Bloomberg New Energy Finance highlight the current uncertainty by noting that in 2014, investment in large-scale wind generation in Australia fell from $2,000 million in 2013 to $240 million.

Although the growth rates of wind generation are somewhat uncertain, any increased wind generation will in general lead to increased congestion in the network particularly in southern Australia. OFA would provide locational signals based on network availability, and prevent existing generators from having network access limited by new wind generators.

No participant or regulator can have a high level of confidence in any forecast of what the NEM might look like in the medium to long term. Forecasting has always been difficult for the complex and dynamic energy sector, but is especially difficult at present due to environmental, economic, technical and regulatory drivers for change.

GDFSAE believes that one of the strengths of the proposed OFA mechanism is that it is optional, allowing individual businesses to make their own decision on the extent to which they wish to purchase firm access based on their risk adjusted outlooks and forecasts.

Faced with increasing uncertainty, GDFSAE believes that it is better to have more risk management options and therefore believes that introducing network access risk management is likely to be beneficial in the longer term.

---

[2] See "Wind Energy in Australia: Current Status and Projected Contribution to Future Electricity Supply. Dr Nathan Steggel & Dr David Osmond, WindScape Institute.

"If the problems are still relevant, any alternatives to OFA to address them, recognising that it would likely take a number of years to develop and implement any alternatives."

The current OFA design has been the result of an extensive review process with substantial input from industry and expert opinion. To some extent, the OFA design has grown beyond that required to manage the primary concerns of GDFSAE.

As such, GDFSAE's strong preference is not to seek to design new arrangements but to encourage the AEMC to consider whether some elements of the current OFA model could be removed in the interests of a more pragmatic, simplified approach.

Alternatively, consideration could be given to implementing certain components of OFA design in a staged manner, with review points along the way.

GDFSAE suggests that the first priority, in either a simplified or a staged model, should be to ensure that generators firm access rights are properly recognised and accounted for by Transmission Network Service Providers in their planning processes. The dispatch and settlement processes could be left unchanged in this initial stage or not adopted until there was a material change in conditions.

It is recognised that this approach would mean that dispatch and settlement outcomes may not deliver the expected firm access level on all occasions; however, it is likely that if the network planning has been done in accordance with all firm access agreements, then on average, the dispatch and settlement outcomes should also provide for firmer outcomes.

GDFSAE hopes that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact Chris Deague on, telephone, 03 9617 8331.

Yours sincerely,

Chris Deague
Wholesale Regulations Manager