

# TRANSMISSION FRAMEWORK REVIEW – SECOND INTERIM REPORT

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**Presented by Mr David Swift - Acting Chief Executive Officer**



## A sustainable regulatory framework for Australia must be one that:

- Delivers the right price and service balance
- Efficiently signals new investments
- Allows the market to deliver where it is capable of delivering
- Utilises existing assets efficiently
- Provides choice for generators

## Preliminary thoughts only

- Components of the AEMC's proposed measures are complex
- Considering the technical issues associated with implementation
- Also considering the changed incentives on parties and linkages between elements
- Look forward to the workshop

AEMO supports financial access rights in principle.

- Such a regime offers benefits:
  - Removes incentives for inefficient bidding and hence negative settlement residues.
  - Assists generators to manage congestion risk.
  - Offers options for new generators while providing efficient locational signals.
- Specific design of the instrument proposed has impacts on other aspects of the package:
  - Flowgates and sub-regions
  - Non tradeable design.

Need to develop matched solutions for planning, transmission pricing and connections

- The status quo and the alternate regime with Optional Firm Access potentially require different solutions to transmission pricing, network regulation, planning other related arrangements.

# PLANNING – WITHOUT OPTIONAL FIRM ACCESS



We do not believe that the AEMC's proposal is a significant step forward for the market

- AEMO is already responsible for providing national demand forecasts.
- AEMO reviews the APRs and some RIT-Ts.
- LRPP is only a power to direct a RIT-T.

We believe that the AEMC need to review the evidence further and provide a more balance perspective

- AEMC should conduct it's own independent analysis.
- Further understand information asymmetries and how best to address them.
- Benefits of the market providing network services.

## Proposals do not change the incentives - rather add checks and balances

- Agree that financial incentives are likely to best drive efficient decision making.
- However the regulatory regime has failed to align the commercial incentives on TNSPs with the long term interests of consumers
  - Inherent difficulties caused by the nature of the network and transmission assets.
- In the absence of such incentives, what is the most effective way forward?

## Mixing market driven and regulated network investment needs a whole new regime

- Generator investment based on generator benefit and regulated investment based on net market benefit need to work together to provide efficient network investment
  - Do the proposals lead to queuing issues?
- Customer TUoS based on asset allocation and generator access payments based on LRMC also need to fit together:
  - Scope for cost shifting either way
  - Potential to remove existing (limited) incentives of ex-ante revenue cap regulation



## Mixing market driven and regulated network investment needs a whole new regime

- Access rights are designed around generators
  - Are instruments suitable for traders and retailers?
  - How many might be needed for inter-regional trade?
- Arrangements seem to lock in regional boundaries and regional reference nodes
- Could also lock in network topology within a region:
  - Flowgates, hybrid flowgates etc. would be defined on the starting network

Proposed regime could work with Victorian decision making and procurement arrangements.

- Proposed arrangements should improve incentives on TNSPs to operate more efficiently.
- Do not address the lack of incentives on TNSPs to make efficient long term network investments.
  - Risk that the design of this regime cements regional monopolies
  - Information asymmetries remain
- Independent procurement can deliver service incentives
  - Current Victorian arrangements provide for performance contracts with winning tenderers

## Generators have been asking for choice

- AEMC is proposing additional transparency – good first step
- Need to realise that there is a market for the provision of new infrastructure
  - Market will grow if given the opportunity
- AEMC should provide greater options for generators – this has a flow on effect for consumers