



EnergyAustralia

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Dear Commissioners

Lodged electronically: www.aemc.gov.au (EPR0039)

Optional Firm Access, Design and Testing: First Interim Report

EnergyAustralia welcomes the opportunity to make a submission on the 'Optional Firm Access (OFA), Design and Testing' draft report (*the draft report*). We support the Commission's assessment that OFA should not proceed.

EnergyAustralia is one of the country's leading retailers, providing gas and electricity to more than 2.7 million customers. We own and operate a range of generation and storage facilities, including coal, gas and wind assets, in NSW, Victoria and South Australia.

We thank the AEMC and AEMO for the open and thorough manner in which they have undertaken the analysis, design and testing of OFA. We agree with the draft report's conclusion that OFA should not be implemented in the current market conditions as the costs would exceed the benefits.

We understand that considerable resources have been spent developing and investigating the OFA model and we commend the AEMC for demonstrating the necessary discipline to stop.

The draft report includes a secondary recommendation to establish a formal monitoring and reporting program to identify conditions when OFA may be feasible. We do not support this recommendation. Such a program will be a poor use of resources and an ongoing distraction. The AEMC has determined that OFA is not a viable reform in the current circumstances. Future participants and policy makers are well placed to make their own decisions.

We recognise that stakeholders have expressed a range of views on the nature and materiality of transmission issues; however we believe the detailed design and feasibility analysis has demonstrated that OFA is unlikely to be an optimal reform under any conditions.

OFA would be a complex and costly reform to implement and operate. The estimated transaction costs, \$90 million over the first five years, are likely understated¹ and the risk of

¹ Five year cost estimates range up to \$199m just for generators: 'Transaction costs for market generators in the NEM', MA January 2015

unintended consequences is high. Additionally, many of the issues identified in the design of OFA are likely to remain intractable.

The potential benefits of OFA have proved to be theoretical when examined in detail. Benefits in relation to dispatch efficiency, generator risk management and inter-regional trade were found to be marginal, or even regressive given market design and structural issues outside the scope of access settlement under OFA.

The potential benefits from improved coordination of transmission and generation investment also appear to be significantly overstated. The modelled benefits from coordination largely accrue from correcting two unrealistic assumptions about the status quo²:

1. Generation decisions are made with no consideration of the cost of achieving sufficient access to load; and
2. Transmission replacement always occurs without any consideration of cost or benefits.

In reality generators do consider access to market and TNSPs would consider the merits of major replacement decisions. The EY report observes that the majority of benefits in the transmission degradation scenario would be achieved with a relative minor change to the regulatory investment test for transmission³. We expect that if the model was updated to reflect more realistic assumptions about the status quo and incremental reforms, then it would show the costs of OFA exceed potential benefits under all credible scenarios.

OFA is not an appropriate reform for now. Future policy makers will address the challenges of the market and policy conditions they face. We should not presume to tell them to make reforms that we found were not viable in our circumstances. It would not be appropriate to burden future shifts in government policy settings (or market conditions) with the prospect of triggering the automatic review of a complex reform such as OFA.

We refer you to our submission on the interim report and the special pricing report for more detail on the key issues with OFA. We acknowledge that the final design includes changes to the design; however, market participants cannot be expected to fully engage with its complexity given the primary recommendation not to proceed. If a future Commission is minded to progress OFA, it will be essential to consult with participants and undertake a full cost benefit analysis at that time.

For any questions regarding this submission, please contact me on (03)86281034.

Regards



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² Modelling the impact of OFA in the NEM, final report to the AEMC. EY January 2015. Sections 2.2.1 and 3.2.9 respectively. AEMC website.

³ Ibid. Page 58