

A few  
words.



Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY NSW 1235

via email: [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

30 April 2015

Dear Mr Pierce,

### **Optional Firm Access, Design and Testing – Draft Report**

AGL thanks the Australian Energy Market Commission (AEMC or Commission) for the opportunity to respond to the *Optional Firm Access, Design and Testing – Draft Report* (the Draft Report), which seeks submissions on the assessment that optional firm access (OFA) would not, absent a major shift in market conditions, contribute to the achievement of the National Electricity Objective (NEO).

AGL has a power generation portfolio of over 10,000MW, which consists of base, peaking and intermediate generation plants, spread across thermal and renewable energy sources. Accordingly, AGL has a strong interest in any proposed change to the framework for generators' access to transmission services and has followed the OFA, Design and Testing Market Review (OFA Review) closely.

### **OFA does not contribute to the NEO**

AGL welcomes the AEMC's draft assessment that OFA would not contribute to the achievement of the NEO.

AGL considers that the implementation of the OFA would be extremely risky, costly and complex. For example, the complexity involved in assessing, at any one time, a generator's: physical position; OFA access rights; nodal and regional hedging positions; physical limitations of plant; and retail exposure, is not only likely to lead to higher contract risk premiums but could also lead to a higher incidence of unintentional hedging positions that could destabilise generators and retailers and discourage market entry.

As such, significant issues resulting from the inefficient location of generators would need to be evident to warrant the introduction of OFA or a similar scheme. AGL is of the view that inefficiencies of this magnitude are not currently present in the NEM.

## **The OFA Review should be officially closed**

Given the AEMC has found that OFA would not contribute to the NEO, AGL is concerned that the draft report implies OFA could be implemented at some point in the future without any further review or consultation.

AGL questions whether previously completed transmission access reviews could actually be used to substantiate the introduction of OFA in years to come, as changes to market conditions in the intervening period are very likely to make current analysis inaccurate, outdated and therefore, quite possibly, irrelevant.

Should market conditions change to warrant reconsideration of OFA, a full suite of options should be considered. The market conditions at the time should dictate solutions to be considered, rather than simply reverting back to a model that is only partially developed.

AGL suggests that the final AEMC report recommend that the Council of Australian Government Energy Council (COAG EC) formally close the OFA Review and that future consideration of transmission access arrangements would occur only on the basis of a new AEMC market review or rule change request. This will ensure that OFA is not unnecessarily deliberated upon across industry in the meantime.

## **A new AEMC monitoring role is not necessary**

AGL suggests that the final report should also confirm that no additional monitoring of transmission investment is required of the AEMC. AGL considers that it is the Commission's core business to monitor and report on the adequacy of regulatory and market frameworks for forecast patterns of generation and transmission investment.

Creating a new function would only create costs and could potentially confuse existing AEMC, Australian Energy Regulator (AER) and Australian Energy Market Operator (AEMO) responsibilities, which are already more than adequate for monitoring these issues.

## **Disorderly bidding**

AGL is concerned that policy makers view OFA as a solution to disorderly bidding. Frontier Economics' report, *OFA design and testing – response to AEMC First Interim Report* outlines that OFA would create new opportunities for disorderly bidding, as generators seek to maintain access to the network by 'headroom bidding' and create higher prices at their node by 'bidding to bind'.

In other words, the OFA model could create more opportunities for strategic bidding than are currently present in the NEM. Furthermore, AGL notes that the AEMC's Final Report concludes that OFA does not (and was not designed to) change disorderly bidding behaviours, such as, late strategic rebidding or 5/30 bidding.

### **Centralised planning**

AGL emphasises that OFA would increase centralised transmission planning rather than lessening it, as is being suggested. The purpose of OFA is to create a price for transmission access that influences where new generators are located. The price for transmission access will firstly be based on a stylised model of the NEM that is determined by Transmission Network Service Providers (TNSPs) and AEMO. Subsequently, the OFA model itself will be governed by the AER, using data inputs from TNSPs and AEMO to set and adjust access prices.

AGL's view is that OFA will bring about the same or higher level of central planning, albeit under a much more complicated framework. For example, the OFA model will need to account for regularly changing constraint equations in order for access rights to be correctly calculated and therefore provide efficient investment signals.

### **New entrant degradation of interconnector capacity**

AGL notes the Commission's concern that there is not a mechanism to deal with the NEM-wide costs that arise if one megawatt of additional generation degrades interconnector capacity by more than one megawatt, as has been evident in south east South Australia.

AGL is of the view that the implementation costs, complexities and risks associated with OFA far outweigh the costs created by these inefficiencies. However, AGL will continue to work with the AEMC and industry to assess whether there is a proportionate response to this issue.

In conclusion, AGL thanks the AEMC for its comprehensive review of OFA and for its genuine consideration of stakeholder representations throughout the process. AGL is supportive of the Commission's draft assessment that OFA does not contribute to the NEO. However, AGL considers that the final report should: recommend that the OFA Review be officially closed; not recommend an AEMC monitoring function; and emphasise the high levels of complexity and risk that OFA would introduce.

Should you have any questions in relation to this submission please contact Kirsten Hall, Wholesale Market Adviser, on (03) 8633 6688 or at [khall@agl.com.au](mailto:khall@agl.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux  
**Manager, Wholesale Markets Regulation**