



Government
of South Australia

Department of
State Development

Mr John Pierce
Chairman
AEMC
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Optional Firm Access, Design and Testing: Draft Report (EPR0039)

Dear Mr Pierce

The Energy Markets and Programs Division (the Division) of the South Australian Department of State Development thank you for the opportunity to comment on the Australian Energy Market Commission's *Optional Firm Access, Design and Testing – Draft Report* (the Report).

As indicated in our previous submissions, the Division has been an in-principle supporter of the Optional Firm Access (OFA) model. It was anticipated that the model could alleviate a significant area of concern for South Australia being the lack of sufficient locational signals provided by the current framework, which results in generators making inefficient locational decisions causing congestion on the South Australian transmission network. We are therefore disappointed with the recommendations made in the Commission's draft report. Particularly noting the Commission's view that the OFA model is an appropriate solution to address the issues in the right circumstances.

While the Division acknowledges that there has been a reduction in demand for electricity and an excess of generation supply, we consider a time such as this, when there is little projected transmission and generation investment, to be the ideal time to commence implementation of such a model.

Despite this, the Division is encouraged by the recommendation for OFA to be considered for implementation when there is an indication that the investment environment is beginning to change. We therefore agree that there should be regular monitoring of conditions in the NEM for these signs.

The Division considers the mechanism for monitoring market conditions that could justify the implementation of OFA to be an important component of the Commission's final report. We have therefore taken this opportunity to provide some views on the potential monitoring mechanism.

The Commission proposes to undertake this monitoring function as an adjunct to their current annual last resort planning power functions. Firstly, the Division does not agree that this role is appropriate for a rule-making body and may sit better with a market body that currently monitor similar market conditions, such as AEMO or the AER.

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Secondly, the Division is not convinced that the Commission's last resort planning power functions are the most suitable to accommodate the OFA monitoring role.

The need for the last resort planning power arises because interconnectors exist in the boundaries between the transmission networks, and require some degree of joint planning. The Commission's last resort planning power is designed to be utilised only where there is a clear indication that regular planning processes have resulted in a gap in the planning of inter-regional transmission infrastructure. It ensures a holistic approach is taken.

Our view is the monitoring required for OFA would be broader, both in terms of what is being monitored and what the implications are should certain conditions be identified. For the last resort planning power, detailed analysis is only undertaken if initial analysis identifies a constraint on an inter-regional flow path that may not have been adequately examined by the relevant jurisdictional planning bodies. The last resort planning power is designed to direct further investigation (or investment) only if gaps are identified. While, the OFA monitoring role seems to be more forward looking, to determine when transmission and generation investment may be required in the near future due to changes in various market conditions. It would be a broader review of matters which would result in a much larger decision impacting on the entire market, rather than a review which may lead to an individual investment decision.

Further, the Commission may request advice from AEMO in relation to the exercise of the last resort planning power, in accordance with the power's guidelines. This suggests that if the Commission were to use this role to undertake OFA monitoring it may still rely on other bodies to have a role in the collection of information.

The Division considers the current market monitoring functions of other market bodies to be more consistent with the functions required for OFA, when compared to the Commission's last resort planning powers, and should therefore be used for this role. As an example, an amendment to AEMO's National Transmission Network Development Plan (NTNDP) obligations under the National Electricity Rules may be one option for the monitoring of OFA conditions as these obligations seem broadly consistent with the information required for OFA monitoring, particularly with regard to the information collected to publish the NTNDP.

The indicators that we believe should be considered by the Commission for OFA monitoring may include:

- changes in the level of demand, including specific monitoring of large industrial load, energy efficiency measures, energy price changes, PV installation rates;
- changes in the costs of generation;
- changes in emissions costs; and
- future locational decisions by generators and the impact these have on network congestion.

It appears that many of the relevant market conditions required for OFA monitoring are already considered by AEMO in preparing its NTNDP. However, additional matters could be considered appropriate for AEMO to monitor and added to their obligations via Rule amendments. The AER's wholesale market monitoring functions could also be utilised. The AER currently publish reports on wholesale market activity

in the NEM, with more detailed analysis and reporting of extreme prices. In addition officials are currently progressing Energy Ministers request to undertake work on defining the requirements and approach for a new wholesale market monitoring function for the AER through amendments to the National Electricity Law. The information provided by AEMO and the AER could be used to inform the Commission of when significant changes to the costs of generation are occurring.

The Division considers that there is no barrier to the AEMC reviewing information currently provided by AEMO and the AER regularly and approaching COAG Energy Council if it considered market conditions had changed sufficiently to reconsider implementation of the OFA model. Under this approach there would not be a requirement for the Commission to report to COAG Energy Council on an ongoing basis but rather only when it considered market conditions to reconsider implementation of the OFA model had been met.

Finally, with regard to the consideration of alternative options, the Division is pleased that the Commission has noted its focus will be on solutions to address the use of interconnectors. The Division has previously noted that South Australia is concerned about constraints on the interconnector during periods of high demand in South Australia as this reduces competition by limiting the availability to import Victorian electricity during these periods. We therefore support the AEMC's further consideration of this issue in the Final Report.

Should you have any questions in relation to this submission, please contact me, on (08) 8226 5500.

Yours Sincerely



VINCE DUFFY
EXECUTIVE DIRECTOR,
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29 / 04 / 2015