



## **Optional Firm Access Design and Testing**

### **Acknowledgement and request for comment**

**5 December 2014**

#### **Background**

The Australian Energy Market Commission (AEMC) has been directed by the COAG Energy Council to investigate the detailed design, testing and assessment of an Optional Firm Access framework (OFA).

This note acknowledges a number of comments made by stakeholders about OFA. It also clarifies how those comments will be addressed as part of the work that the Commission is currently carrying out. Finally, it invites stakeholders to confirm their views on some matters.

#### **Problems identified as part of Transmission Frameworks Review**

The OFA work follows on from an earlier AEMC project, the Transmission Frameworks Review. In that project, the AEMC identified a number of concerns with the efficiency of the co-ordination between transmission and generation in the National Electricity Market. They were:

1. The lack of clear and cost-reflective locational signals for generators, such that locational decisions do not take into account the resulting transmission costs;
2. TNSPs estimating the benefits of transmission development, where those benefits are better known to generators, and the risk of inefficient decisions being borne by consumers rather than the decision-maker;
3. The resultant planning of transmission networks not being co-optimised to minimise the combined costs of generation and transmission;
4. The importance of TNSP's operating their networks to maximise availability when it is most valuable, and the challenge they face in doing so given the lack of exposure to the financial costs of reductions in capacity;
5. The difficulty that market participants have in managing the risk of price differences between different regions of the NEM, with a resulting negative impact on the level of contracting between generators and retailers in different regions;
6. The lack of certainty of dispatch faced by generators when there is congestion, compounded by the inability of generators to obtain firm access, even where they fund augmentations of the transmission network; and

7. The resulting incentives for generators to offer electricity in a non-cost reflective manner in the presence of congestion.

### **Terms of reference for OFA**

As part of the Transmission Frameworks review, OFA was designed to be an all-encompassing solution to these concerns. While it was acknowledged to be complex, the Commission considered that it was not possible to address any one element of the transmission frameworks in isolation.

OFA aimed to contribute to a market that is able to adapt to changing conditions, particularly generation and demand patterns, to deliver better outcomes for consumers. But the Transmission Frameworks Review concluded that this model needed to be developed in more detail and tested to determine whether this would be the case in practice. This is the focus of the AEMC's current work.

The terms of reference for the design, testing and assessment of OFA has not required the AEMC to reconsider the issues and problems identified as part of the Transmission Frameworks Review. Accordingly, we have not specifically consulted on these matters.

### **Stakeholder comments**

In undertaking the OFA work, however, the AEMC has become aware that some stakeholders do not think OFA should be implemented. In their submissions to the first interim report a number of stakeholders questioned whether the problems identified as part of the Transmission Frameworks Review, that OFA is intended to address, are still relevant. More recently, the Clean Energy Council and a number of generators have written to the COAG Energy Council expressing their concerns. Objections that have been raised include:

- OFA is designed to address congestion, and congestion is no longer a major problem in the NEM.
- Stronger locational signals are unnecessary. Other factors are more determinative such as proximity to fuel and availability of water. In addition marginal loss factors and constraints already send locational signals.
- The failure of co-ordination between transmission and generation investment has not been established.
- The current market is over-supplied and load growth is uncertain. No new generation is likely, therefore there is no optimisation of investment problem, making OFA unnecessary.
- There are already signals as to where transmission investment should locate, such as through the application of the regulatory investment test for transmission.

Stakeholder views regarding the problems are important factors that the Commission is considering. They will be taken into account by the Commission as part of its assessment of, and conclusions on, OFA.

## **Request for responses**

To assist in its considerations, the AEMC is seeking to gain a better understanding of the rationale behind stakeholders' current views on OFA, and their expectations for the future.

In this context the AEMC welcomes comments on the following:

- The rationale for why stakeholders consider that the major problems that OFA is attempting to address (identified above) are no longer relevant.
- 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?
- 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.

It is important to make three points regarding this note and any responses received:

- First, this is not intended to be used to determine whether the OFA design and testing work should continue. Whatever the responses are, the Commission will continue to prepare its report to COAG Energy Council to fulfil its terms of reference, as required under the National Electricity Law.
- Secondly, this does not replace any of the stakeholder engagement planned for the remainder of the OFA project. That engagement will proceed with any responses provided here helping to inform the Commission's work at a high level. The Commission is very grateful for all of the input stakeholders have provided in the context of this project.
- Finally any responses received, including alternative models proposed by stakeholders to address problems that they have identified, may inform the made recommendations to the COAG Energy Council. Subject to confidentiality considerations responses will be published.

If you would like to respond to this note, it would be appreciated if you could do so by 30 January 2015.

Responses should quote project number "EPR0039" and may be lodged online at [www.aemc.gov.au](http://www.aemc.gov.au) or by mail to:

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