# Optional Firm Access Transitional Allocation

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# The nature of the problem – OFA and Transitional Access

- The problem to be solved is inherently an economic one ie. allocation of a scare resource (transmission capability).

- Transmission capability is very complex (a highly meshed network) and is very dynamic (outages, generation variability, ambient conditions, unpredictable loads etc).

- A fixed and simplistic technical approach to access allocation cannot solve what is an inherent economic issue.

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# Overview - Transitional Access Allocation

- Current proposed methodology for transitional access does not meet AEMC's own stated aims and objectives.

- Only a staged transition to full and open auction process will reveal true economic value of access rights while meeting allocation objectives.

- Critically this aligns with no expected new investment requirement in next ten years.

- However, question remains: what is the net overall OFA benefit, when both the additional complexity and overall costs are obvious?

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# Many major technical problems with the OFA model remain – these need to be resolved but it may not be technically possible

- *AEMO identified in their Interim Report*

  - *Flowgate support generators*

  - *Portfolio bidding*

  - *Five-thirty and last-minute rebidding*

  - *Non-scheduled generation*

- *Meshed network not single flowgates*

- *Voltage/Stability constraints*

- *TNSP info/incentives*

- *Arbitrary/non sensible starting points (eg 39 transmission line fictional constraint).*

- *Constraints are transitionary by nature!*

- *etc*

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# Initial Transitional Access Methodology does not meet AEMC's stated objectives

- Figure B.2 of the AEMC First Interim Report shows indicative transitional access:

| Sub-Region | Base | Taper | Off-peak | Windy | Winter | Mothball | Flowgate |
|---|---|---|---|---|---|---|---|
| Northern Queensland | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Central Queensland | 99% | 99% | 97% | 97% | 96% | 99% | 99% |
| Brisbane | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| South Western Queensland | 84% | 84% | 84% | 85% | 82% | 84% | 82% |
| Hunter Valley NSW | 100% | 97% | 1 | | | | |
| Central Coast NSW | 100% | 100% | 1 | | | | |
| Sydney | 100% | 100% | 1 | | | | |
| Western NSW | 100% | 90% | 1 | | | | |
| Southern NSW | 100% | 80% | 9 | | | | |
| NSW Snowy | 63% | 73% | 2 | | | | |
| Victoria Snowy | 100% | 100% | 9 | | | | |
| Northern Victoria | 87% | 87% | 1 | | | | |
| Latrobe Valley | 95% | 95% | 91% | 96% | 95% | 95% | 95% |
| Melbourne | 86% | 86% | 100% | 100% | 100% | 86% | 86% |
| Western Victoria | 100% | 100% | 100% | 100% | 93% | 100% | 100% |
| South Eastern South Australia | 90% | 90% | 88% | 60% | 74% | 90% | 90% |
| Adelaide | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Northern South Australia | 97% | 97% | 90% | 87% | 86% | 99% | 97% |

Based on marginal value of constraint that has never bound:
- 39 line - recent major TransGrid 500kV investment
- **1000**MW headroom
- Does not consider constraints that bind regularly or are likely to bind (including voltage)

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# Transitional Access – AEMC stated objectives have not been met

- High level assessment of Transitional Access methodology with generators in the NSW Snowy sub region. 63% Access granted.

| Issue | Assessment |
|-------|------------|
| Does it meet Aim? "Generators' current levels of access will continue for some time" | • No<br>• Both Lower Tumut and Upper Tumut have generated at 100% of their registered capacity in the last 2 years. |
| Does it meet the four Initial Transitional Access objectives set out in the Transmission Frameworks Review | 1. To mitigate any sudden changes to prices and margins for market participants on commencement of the optional firm access regime. (Objective violated)<br>2. To encourage and permit generators – existing and new – to acquire and hold the levels of firm access that they would choose to pay for. (Objective violated – we would not "choose" to pay for 37% more "firm" access. Why should we have to pay for access which we already implicitly have for free?)<br>3. To give time for generators, TNSPs and other market participants to develop their internal capabilities to operate new or changed processes in the optional firm access regime without incurring undue operational or **financial risks** during the learning period. (Objective violated - would have to drastically unwind our forward contract positions as the low initial transitional allocation would create significant basis/pricing risk)<br>4. To prevent abrupt changes in aggregate levels of agreed access that could create dysfunctional behaviour or outcomes in access procurement or pricing. (Objective violated – This allocation would be an abrupt change to the current level of access for Tumut generators) |

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# Context for Transitional Access

- *"Investment Domain" – Large Scale Generation and Transmission assets*

  - *10 years plus commitments and asset lifespans*

  - *Falling demand, Mothballing, Oversupply, No material build!*

- *"Commercial Domain"*

  - *1, 2 , 3 ,4 year commercial commitments*

  - *Retail competition (1st )*

  - *Hedging competition (2nd )*

  - *Spot (last)*

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# Transitional Access – Only logical/valid economic approach is Full Auctioning

- Arbitrary technical allocations – just that - simply lead to unforecastable random value transfers between generators

- The only potential feasible economic approach is auctioning access rights

- *Assuming net-benefit can be shown (???) then after final decision made:*

  - *5 years after this milestone start auction process*

  - *10 years after this milestone start OFA settlement*

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# Conclusion

- Full but staged auctioning of access rights is the only valid economic approach to transitional access – however the key issue is the merits of OFA

- We see many fundamental issues with the overall OFA model:

  - Complexity – The NEM is already complex, the OFA makes this much worst.

  - OFA will lead to more network build – The capital needs to recovered either through TUOS or wholesale energy prices. Consumers at risk of paying more.

  - Efficient markets are about decentralisation – The OFA is a massive centralisation of decision making.

  - Will have material adverse impacts to the hedging markets (increasing basis price risk) – not in the interest of consumers.

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