Firm access standards and incentives

AUSTRALIAN ENERGY MARKET COMMISSION
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Firm Access Standard: Recent developments

- The Firm Access Standard translates access purchased by generators into capacity required from TNSPs
- It guides TNSPs as to what constraints it needs to overcome to give the generator the access it seeks
- The Firm Access Standard in TFR relied on a distinction between:
  - normal operating conditions (NOC), during which TNSPs must provide fully firm access (“they are on the hook”) and
  - abnormal operating conditions (AOC), during which TNSPs had no obligation to provide firm access (they are “off the hook”)
- We have identified some improvements to this approach to make the firm access standard simpler because: hard to differentiate NOC/AOC, no incentive on TNSP under abnormal conditions

Firm Access Standard: Proposed revision

- Instead, 2 separate standards, a firm access planning standard and a firm access operating standard
- Fundamental role of the firm access standard remains unchanged:
  - access purchased by generators drives the firm access standard
  - firm access standard drives TNSP planning of the network
  - access pricing reflects incremental cost of firm access standard obligations arising from additional agreed access

Firm Access Standard

- The planning standard requires TNSPs to plan the shared network to provide firm access under a set of specified network conditions (yet to be determined but likely to be a time of material constraints)
  - Generators could be certain of access at these times
- This requires the TNSP to assess all of the points on the network that could cause a constraint to the generator and overcome these
- Failure to do this would be a breach of the rules
- TNSPs would have to demonstrate in their annual planning reports how they are meeting the planning standard
- The operating standard sets a target access level for TNSPs to meet under the incentive scheme → it applies in all periods

TNSP incentives

- Firm access operating standard is the basis for the incentive scheme
- Incentive scheme would apply at all times (even where conditions are beyond TNSP's control)
- Incentive scheme would recognise that some shortfalls are permitted/expected
- TNSPs would aim to meet (or beat) a "target" level of shortfall amounts set in MW or $$ per year
  - If actual shortfalls were below the target level, the TNSP would receive a bonus (funded by firm generators, and limited by amount of access purchased)
  - If actual shortfalls above target, the TNSP would pay firm generators

TNSP incentives

- In setting the shortfall target the historical performance of the generator would be considered
- To protect the TNSP, and limit its rewards, there would be a series of “nested caps and collars”, which limit the aggregate payments over multiple timescales: eg by trading interval, by day, and by year
- We propose that the new incentive scheme would replace the market impact component of STPIS

TNSP incentives

- Key features of this approach:
  - symmetric: offers TNSPs rewards as well as penalties
  - encourages TNSPs to think commercially at all times, not just system normal, and to return network to system normal after outages
  - allows shortfalls where the cost of maintaining access exceeds benefit
  - intended to incentivise TNSP behaviour rather than compensate generators for losses