Government of South Australia
Department of State Development

Mr John Pierce
Chairman
AEMC
PO Box A2449
SYDNEY SOUTH NSW 1235

Optional Firm Access, Design and Testing: Supplementary Report on Pricing (EPR0039)

Dear Mr Pierce

The Energy Markets and Programs 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 – Supplementary Report on Pricing* (the Report).

As indicated in our previous submissions a significant area of concern for South Australia is the lack of sufficient locational signals provided by the current framework, resulting in generators making inefficient locational decisions causing congestion on the South Australian transmission network. The development of a framework that provides incentives for generators to locate in uncongested parts of the network is a crucial issue for South Australia, and we continue our in-principle support of the Optional Firm Access (OFA) model.

I therefore welcome the Commission's work in producing the report on firm access pricing, and provide the following comments.

I note that the Long Run Incremental Cost (LRIC) pricing methodology is still a work in progress, and there are a number of issues that the Commission plan to further consider. It is encouraging that the initial LRIC model has generally produced results which reflect the expected relativities, with higher prices for access to network locations more remote from the regional reference node or in congested areas.

In reviewing the results on the key regions of interest for South Australia, the LRIC model suggests high costs for a generator looking to locate in the south-east of South Australia, with the costs for this region the highest on the scale provided, which is to be expected. However, the model suggests that the deep connection charges for regions such as the mid-north would be relatively higher than those produced by LRIC, and therefore more in line with expectations for a region with high transmission congestion.

However, there is important data that is still required to be incorporated in to the model that could impact significantly on the results, for example, asset replacement costs and stability constraints. In particular, these inputs are important in order to provide a better understanding and level of confidence regarding the quantum of the access prices produced by the model.

Energy Markets and Programs
Level 8, 11 Waymouth St, Adelaide SA 5000 | GPO Box 320, Adelaide SA 5001 | DX 541
Tel 08 8226 5500 | Fax 08 8226 5523 | Email statedevelopment@sa.gov.au
www.statedevelopment.sa.gov.au | ABN 83 524 915 929

SOUTH AUSTRALIA

More generally South Australia has concerns with the LRIC approach as it is heavily reliant on demand and planning forecasts to provide a stylised pricing model. While such an approach removes some of the complexity inherent in transmission planning, its heavy reliance on judgements about the future and key inputs from transmission network service providers that are not necessarily available publicly is likely to be an issue. While the model appears to be producing reasonable relative costs, as noted above, the models reliance on forecasting to provide the baseline does raise concerns about the accuracy of the quantum of prices produced and therefore that an appropriate level of access price is provided to connecting firm generators.

Further, I note that potentially any inaccuracies in the estimated prices under the current model may result in costs being passed on to consumers. While the Commission has stated that they consider that costs passed on to consumers should be neutral over time, I encourage the Commission to consider this issue further as part of the assessment process.

I therefore continue to consider a deep connection charge model to better reflect the true costs of a generator connecting to an area of the transmission network. Deep connection charges also do not rely so heavily on a series of forecasts, estimates and assumptions and are less prone to inaccuracies. The deep connection charge would therefore give a truer locational signal to potential generators. This type of model is also likely to be far less complex than the proposed LRIC model and less subjective.

Finally, while I note that the proposed changes regarding all aspects of the OFA model are complex and represent a very significant implementation task South Australia would be disappointed if a key reform of this nature, offering potential significant benefits to the market, was abandoned due to the complexities of the task. Should the LRIC model not produce accurate prices or become overly complicated, I strongly encourage the Commission to contemplate the potential for other pricing models such as deep connection charging.

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

Yours Sincerely

VINCE DUFFY
EXECUTIVE DIRECTOR,
ENERGY MARKETS AND PROGRAMS DIVISION
17/ **12 /2014**