



Optional Firm Access – Summary of consultant reports

AEMC Optional Firm Access, Design and Testing Review

During the course of the Optional Firm Access, Design and Testing Review, the AEMC commissioned a number of consultants and AEMO to provide advice on various questions. This was to inform the Commission's work. This information sheet provides a summary of those consultant reports.

Ernst & Young, Modelling the impact of optional firm access, January 2015

Ernst & Young (EY) was engaged to quantify some of the benefits associated with the optional firm access arrangements. This updates work that was previously done by ROAM Consulting (recently acquired by EY) during the Transmission Frameworks Review.

The modelling found potential savings resulting from improved coordination between generation and transmission investment across a range of scenarios. EY estimated that the benefits of improved co-ordination, measured as the difference in total system costs (ie, generation and transmission) between the current planning arrangements and optional firm access, range from \$51 million (with a reduced RET and no carbon price) to \$86 million in the base case (weak demand growth, the RET in its current form and no carbon price) to \$670 million with an emissions reduction scenario that targets a 40 per cent reduction on 2000 levels by 2025 and an 80 per cent reduction by 2040.

The modelled benefits are greater in future scenarios involving more change in relation to demand, and generation and transmission investment.

Houston Kemp, Historical analysis of coordination between transmission and generation investment in the NEM, 2 February 2015

The Commission engaged Houston Kemp to undertake a discrete case study looking at the historical co-ordination of transmission and generation investment in South Australia. Houston Kemp undertook a consultation process with stakeholders to hear their views as to whether there is any historical evidence of inefficient locational decisions being made by generators in South Australia.

Houston Kemp concluded that there is some evidence that there are sub-optimal outcomes in terms of investment co-ordination in South Australia.

Oakley Greenwood, Impact of optional firm access on generators, January 2015

The Commission engaged Oakley Greenwood to assess the impacts of optional firm access on generators and their behaviour in the wholesale, contract and retail markets in the NEM. Oakley Greenwood's conclusions were informed by one-on-one discussions with a number of generation businesses operating in the NEM.

Oakley Greenwood make a number of conclusions, including that, once introduced, the majority of generators would be competitively incentivised to hold relatively high levels of firm access.

EMCa, Transaction costs associated with the implementation of the firm access model, January 2015

The Commission engaged EMCa to assess the one-off and incremental on-going costs of optional firm access to TNSPs in the NEM. Costs were assessed for the four mainland TNSPs, including AEMO in respect of its TNSP role in Victoria. EMCa estimated the costs following interviews with key TNSP personnel to assess impacts on resources following the introduction of optional firm access.

EMCa estimated that the optional firm access transaction costs for TNSPs (excluding TasNetworks) would be \$8.1 million (\$2014).

AEMO, AEMO Access Settlements Implementation Cost Estimate Report, December 2014

The Commission requested AEMO to estimate the transaction costs associated with the introduction of the access settlement element of optional firm access.

AEMO have estimated that it would cost \$1.8 million (\$2014) to implement the access settlement component of optional firm access.

Market Reform, Transaction costs of optional firm access for generators in the NEM, 14 January 2015

The Commission engaged Market Reform to assess the one-off and incremental on-going costs of optional firm access to generators in the NEM. Market Reform undertook two approaches to estimating the cost of optional firm access to generators:

- A survey of NEM generators was conducted to obtain their estimates of the transaction costs.
- Market Reform developed a cost model based on its experience in planning and managing reforms. Costs that could not be estimated using this approach – such as legal costs – were taken from the survey results.

Market Reform estimate that the optional firm access transaction costs for generators would be \$80 million (\$2014). This figure is based on the “best cost” estimate derived through Market Reform’s cost model approach.

UniQuest, Inter-Regional Access Auction Design, 31 January 2015

The Commission engaged Professor Flavio Menezes to provide high level advice on auction design for the allocation of inter-regional firm access rights. He provided a description of a particular auction format, and an associated product definition, that could be used to allocate firm access rights.

AEMO, Transitional Access Round 2 Report, November 2014

The Commission requested AEMO to undertake a series of tests of methods to allocate transitional access to existing generators if optional firm access was to be introduced. This report can be considered to be an update to the tests that were undertaken for the First Interim Report, and contained in AEMO’s Transitional Access Allocation Report, June 2014.

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