Optional Firm Access – First Interim Report

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General Comments

- DSDBI supports in principle the introduction of OFA
- Significant uncertainty over future patterns of generation in the NEM (size, nature and location of generation)
- Uncertainty driven by climate change policy, technological change, demand for electricity
- Victorian planning framework has worked well, but risks of inefficient under or over investment in transmission networks are material at a time of market uncertainty – currently consumers bear this risk
- OFA provides a framework which provides market based signals for future network investment.
- Risk associated with size and location of future generation led transmission investment are shifted away from consumers and moved to generators who are best placed to manage these risks
- But, also critical that adequate incentives are placed on TNSPs to ensure they respond efficiently and in a timely manner to market signals

Optional Firm Access – Assessment framework

- DSDBI broadly supports the assessment categories identified by AEMC
- Other categories could be added to enhance the analysis:
  - **Wholesale and retail competition** – OFA provides direct competition benefits that should flow through to consumers (e.g. inter-regional hedging).
  - **Security of supply** – enhanced transmission investment signals should ensure investment occurs in the right place and at the right time.
  - **Market transparency** – OFA should provide enhanced transparency around price and availability of inter and intra-regional access.
- Benefits/costs assessment
  - Caution AEMC in giving disproportionate weight to transaction cost measurements in comparing these with harder to measure longer term efficiency and competition benefits
  - Important that AEMC evaluates OFA across a broad range of future scenarios (e.g. decentralised generation, low demand, take up electric vehicles etc)

Firm Access Standard

- Firm access standard – specifies “level of redundancy that TNSPs must build into their network” – taking into account generator access arrangements.

- DSDBI concerned that standard may not encourage efficient investment decisions as it mandates physical network investment:

  – may be possible for TNSPs to deliver firm service through efficient operation as opposed to investment
  – unclear how standard will operate if changes in demand elsewhere on network make investment unnecessary
  – risk of inefficient over investment

TNSP incentives and other issues

- DSDBI concerned that TNSP incentives may not be strong enough to drive TNSP to effectively manage delivery of incremental network investment
  - Incentives should operate to ensure efficient management of network outages and congestion, but do they effectively address delays to incremental investment
  - Should revenues from OFA be used to establish a buy back fund that TNSPs must draw from if incremental investment has not been delivered in time?
  - Unclear why an “outputs” based approach has not been utilised
- DSDBI broadly supportive of application of tools such as nested caps and collars to limit risks and rewards for particular events but maintain continuity of incentive
- Question however arises as to whether TNSP incentives should be supplemented by legal obligation on TNSPs to operate their systems in an efficient manner (e.g. to apply when caps and collars are reached and incentives no longer active)

Other matters

- Interaction with Victorian transmission planning framework will need to be carefully considered – interaction between AEMO's role as planner procurer and TNSP role as service provider(s).

- Generator credit arrangements – effectiveness of generator led investment signals will depend in part on credit that generators are required to post. If credit requirements are weak, this will undermine the investment signals created by OFA agreements.

- Interaction between OFA and transmission planning framework – ensuring investment signals are not undermined