

4 September 2014

The Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir

**FIRST INTERIM REPORT
Optional Firm Access, Design and Testing
Reference: EPR0039**

The Major Energy Users (MEU) welcomes the opportunity to provide its views to the AEMC on the draft First Interim Report on Optional Firm Access, Design and Testing.

The MEU was actively involved throughout the Transmission Frameworks Review process and can see the long term benefits to consumers that the Optional Firm Access (OFA) arrangement would bring to the National Electricity Market (NEM). To some degree, the MEU sees that OFA starts bring to the NEM some of the benefits of a view the MEU has had for many years - that by generators paying for the costs of transmission will reflect what occurs in competitive markets where producers pay for delivering their products to the market. The MEU sees that such an arrangement would more easily resolve a number of the problems that the NEM currently faces.

The MEU provides its views on the draft first interim report on OFA and the MEU submission is attached. In developing its responses, the MEU highlights that its views are based on looking at the way the proposed implementation of the OFA concept would impact consumers. The MEU has not attempted to examine or provide views on how the OFA might impact on other stakeholders

We appreciate the opportunity to have provided this input into the current review. Should you wish for amplification of any of the comments provided, we would be pleased to expand on our views.

The MEU is keen to continue to be involved in this review process and we request that you keep our Public Officer (David Headberry) aware of future discussion and request for further stakeholder involvement on this review.

Yours faithfully



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Australian Energy Markets Commission

Optional Firm Access, Design and Testing

Reference: EPR0039

Comments on Draft First Interim Report

Submission by

The Major Energy Users Inc

September 2014

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The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission. The content and conclusions reached in this submission are entirely the work of the MEU and its consultant.

1. Introduction

1.1 About the MEU

The Major Energy Users Inc (MEU) represents more than 20 large energy using companies across the NEM and in Western Australia and the Northern Territory. Member companies are drawn from the following industries:

- Iron and steel
- Cement
- Auto industry
- Paper, pulp and cardboard
- Processed minerals
- Fertilizers and mining explosives
- Tourism and accommodation
- Mining

MEU members have a major presence in regional centres throughout Australia, e.g. Western Sydney, Newcastle, Gladstone, Port Kembla, Albury, Mount Gambier, Westernport, Geelong, Port Pirie, Kwinana and Darwin.

The articles of the MEU require it to focus on the cost, quality, reliability and sustainability of energy supplies essential for the continuing operations of the members who have invested \$ billions to establish and maintain their facilities.

Because the MEU members in many cases have their major manufacturing operations located in regional centres, the members require the MEU to ensure that its comments also reflect the needs of the many small businesses that depend on the existence of their large manufacturing operations, and the many residential electricity consumers that make up the members' workforces and contractors.

1.2 The MEU view of the energy markets as a whole

The NEM design is based on providing strong incentives for the supply side of the market for providing a vibrant and responsive electricity supply. If incentives are inappropriate and over-incentivised, inefficient investments are made in the transmission and distribution networks – as have been the case under the existing Rules. This results in users of energy facing significantly higher but arguably unnecessary costs and hence adversely affect the downstream investments. Just as importantly the Australian economy incurs large dead weight losses.

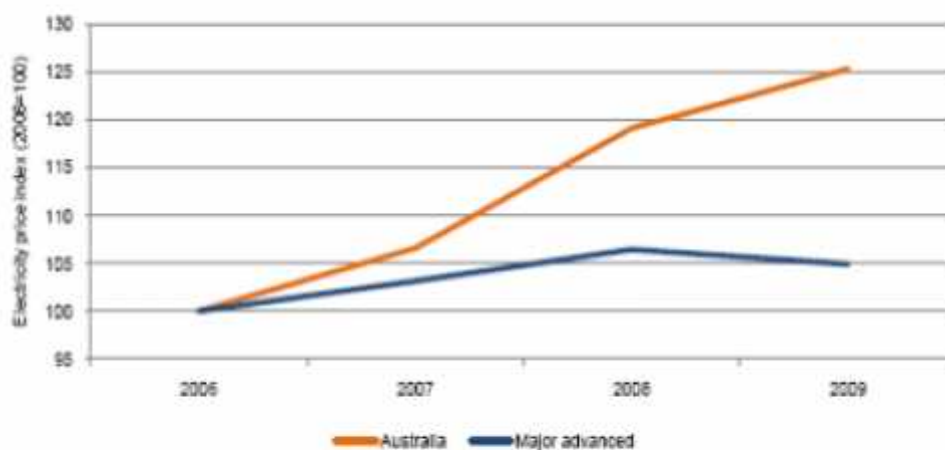
But in delivering a reliable electricity market (as has been the case), the incentives provided to supply side participants have resulted in a number of detrimental outcomes, including:

- A rapid and sustained price increase in electricity is having dramatic impact on the budgets of industry (especially energy intensive industry) as well as

lower and medium income households, with some households paying up to 10% of their disposable income on energy. Energy costs are now extremely topical; a direct contrast to a decade ago when mention of energy costs was very rare.

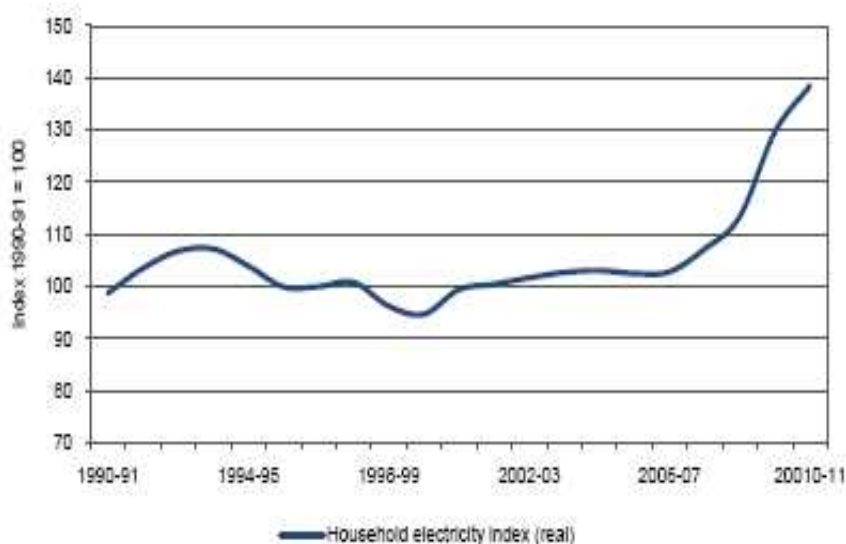
The sharply increasing cost of electricity was identified by Garnaut¹ in his update #8 in both relative (figure 1) and actual (figure 2) terms²

Figure 1: Real electricity prices in Australia and the seven major advanced economies, 2006 to 2009, index in US dollars



Source: IEA 2009, OECD 2010.

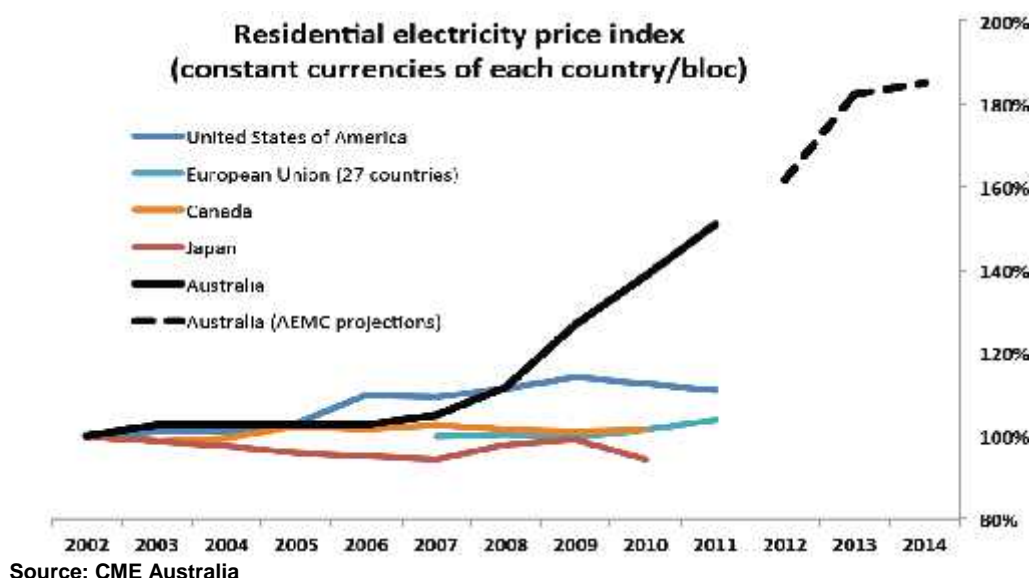
Figure 2: Real household electricity price movements
(constant 100 would mean electricity prices rising at same rate as other prices)



Source: Australian Bureau of Statistics, Consumer price index for electricity (Category 6401.0).

¹ Garnaut: Climate Change Review Update 2011 Transforming the electricity sector
² ibid pages 7 and 8

CME Australia has calculated electricity price movements for Australian households over previous years and the doubling of prices now puts Australia's electricity price rises amongst the highest in the world as the following chart indicates.



The causes of the price rises are many, including:

- Generator market power such as seen in SA and Queensland regions. The lack of changes to the rules proposed by the MEU, AER and the SA government has allowed the exercise of generator market power to continue
 - Steeply rising transmission and distribution network prices – on average these rose in real terms by ~50% over the past five years³ caused by the rule changes in 2006 and 2007.
 - The electricity market (particularly seen in some regions) exhibits excessive volatility in spot electricity prices, and as a result retailers are including in retail price offerings, large risk premiums which are causing significant retail contract price increases
 - Implementation of the carbon emission tax, now repealed
 - The 20% mandated renewable electricity target, now under review
 - The indirect costs caused by the need to augment networks to meet the carbon tax and MRET requirements
 - Myriad other Federal and State Government renewable energy and climate change programs and 'initiatives', such as feed-in tariff schemes, climate change levies, energy efficiency programs, etc
- Electricity demand in recent years has flattened to the extent that in most regions electricity consumption is falling.

³ Weighted annualised average increases alone for the three years 2010, 2011 and 2012 gives an increase of ~40%

- The apparent use by state governments of their electricity assets to extract indirect taxation from electricity consumers through increased dividends
- The separation of the setting of network reliability performance standards (set by governments) from the costs involved (set by the regulator)
- Increased consumer costs caused by the continually increasing:
 - Volatility and risks in the market resulting in increased costs passed through to consumers
 - Transaction and prudential costs
- The increasing concentration of the market - both horizontally (fewer large retailers and independent generators) and vertically through the acquisition of generation assets by retailers. The MEU has analysed the degree of competition in the NEM based on calculations of the Herfindahl Hirschman Index (HHI), which is an indicator used to provide a helicopter view of market competition. The revealed trends are not encouraging. For example, the HHI for retail in the NEM indicates that the electricity retail market is classified as “highly concentrated”. Generation is classified as “moderately concentrated” on a NEM wide basis, but in each region of the NEM, generation is “highly concentrated” in all regions but Victoria, where it is classed as “moderately concentrated”.

Overall, whilst the supply side incentives have delivered a reliable electricity supply system, there have been some significant negative price outcomes from the approaches taken.

The MEU supports actions which will increase competition and sees that the OFA concept has the potential to reduce the amount of congestion that allows generators to exercise their market power.

1.3 The inter-relation between generation and transmission

Transmission plays a vital role in two major aspects affecting other elements of the electricity supply chain, viz generator competition and generator location.

As the capacity of transmission increases or the demand for electricity falls, congestion becomes less frequent, increasing the amount of time generators have strong competition. As congestion increases, generator competition reduces causing, at times, opportunities for generators to exercise their market power.

The MEU sees that the introduction of the OFA concept can provide a benefit to consumers through generators taking actions to relieve congestion that is caused by insufficient transmission and causing harm to the generators involved. Equally, it is important to note that the causes of congestion limiting generation access to the market is mainly through actions of other generators either not recognising or not

caring that their decisions on the location of their assets has caused this congestion. Particularly, it has been the drive for renewable generation that has been a major cause of the recent increase in congestion in the transmission network.

Whilst the focus of the optional firm access (OFA) concept is to relieve congestion by allowing generators to procure firm access in order to deliver their product, the MEU also notes that there is a basic assumption that generators will take action to reduce the amount of congestion.

In this regard, it must be noted that the increase in horizontal and vertical integration in the market means that generators will take actions only where they see that the reduction in congestion will benefit the generation portfolio of a generator. This will therefore limit the actions a generator might take to reduce congestion. For example, if a generator sees that by reducing the chance of congestion this will impact its ability to set high prices in a region, a firm will look at the impact on the portfolio of its generation assets and retail activities rather than the unique instance of the congestion. If, by retaining a point of congestion, a firm with a portfolio of generation assets and retail activities will benefit overall, then it is unlikely that the OFA will be utilised by the generators impacted by the congestion.

As has been identified in the discussions on the MEU proposed rule change to limit the exercise of generator market power, it is clear that generators utilise congestion to their advantage. In South Australia for example, AGL has utilised congestion on the Heywood Interconnector to enable its Torrens Island Power Station (TIPS) to exercise its market power to the considerable detriment of consumers. Because there are times when TIPS (due to its relative size in the SA market) can set the spot price in South Australian region regardless of any competition from other generators, no generator in SA, including AGL, is likely to seek using OFA to reduce congestion at Heywood, although some retailers might consider this an action they might take.

The MEU can see a scenario where (say) AGL might seek to acquire all of the firm capacity on the Heywood interconnector through the OFA to prevent other stakeholders having access and therefore providing AGL with an incentive to continue to exercise its market power. Such an approach is analogous to gas shippers seeking to acquire all of the capacity on a gas pipeline in order to prevent other shippers being able to compete with the capacity holder and therefore using its monopoly pricing position in selling gas.

1.4 Summary

Consumers are facing considerable price impacts for their electricity supplies. A key driver is due to the significant changes in the market structure of the NEM that have occurred in recent years. It is neither reasonable nor appropriate that the AEMC should examine changes to the transmission system in isolation of the impacts that transmission has on consumers at their points of supply. Nor should the AEMC disregard the drivers for generation owners to maximise the use of congestion to their commercial benefit.

2. General observations about OFA

The basis of the cost for the OFA is the long run incremental cost (LRIC) of the transmission assets involved in relieving the congestion. However, there is no indication provided as to how this LRIC will be developed or what and how the basis of the calculation parameters will be set. This is a key element of how the OFA will be implemented.

The MEU also notes that the LRIC will be set over the length of the access arrangement but it is not clear how this will be implemented in practice. This aspect is further developed in the following MEU commentary and assessment.

The MEU considers that the LRIC is an integral part of the OFA concept and must be explained in considerable detail.

2.1 Assessment framework

It is not clear as to how the OFA will be managed with regard to timelines. The draft first interim report posits that there will be two basic forms of OFA - the short term OFA where the TNSP provides better operational management of the network to limit congestion rather than augmenting the network, and the long term OFA where the TNSP augments the network. The time frames provided in the report indicate that the short term OFA is shorter than three years and the long term OFA is greater than three years - the three year breakpoint reflects the amount of time needed to develop and augmentation project. yet at various points throughout the draft report, there are other time frames discussed.

What is not considered is how long a long term OFA agreement will last. Network assets typically have a life of more than 40 years, so an investment made for the OFA, if it is to recover the cost of an investment, needs to be underwritten for the 40+ year life of the assets. Is it expected that an OFA offer from a generator will last this time? If the generator does not contract for the life of the assets, then at some point, consumers will become liable for the remaining payments needed to fully pay the TNSP for the investment unless the cost of the OFA is amortised over the term of the OFA agreement.

This issue is not addressed at all in the first interim report.

Secondly, if the OFA agreement with the generator has a limited contract duration, it is possible that the generator would "roll over" the OFA agreement because the access is still required. However, over such a long term, it is probable that there will be considerable changes in the market dynamics - new generation in other locations, the existing generation being closed, consumer demand variations in volume, peak demand and location, and network changes. All of these options can result in a generator not seeking to extend their OFA agreement. This means that either consumers will incur the long term liability or, if the OFA cost is amortised over the term of the OFA agreement, then the generator seeking a "roll over" will have to

pay for an asset fully depreciated. The AEMC needs to determine how the cost of the long term OFA agreement will be set as this could have significant impacts on the liability of consumers.

In the draft report, the AEMC comments that the risks should be allocated to those that can best manage the risks. Consumers have no ability to manage the risks inherent on the OFA process yet it would appear that effectively, consumers are expected to underwrite its risks, despite generators and TNSPs being the beneficiaries from the OFA process.

The MEU considers that the AEMC needs to examine the underlying long term risks underpinning the OFA process as the OFA provides a mechanism for allowing generators to improve their relative position but leaving consumers at long term risk exposure should the generator change its decision in the future. It would be bizarre if a generator caused a TNSP to augment the network so that it can be dispatched but after a few years and changed circumstance, the generator decides it no longer needs the augmentation, causing either the TNSP or more likely consumers to pay for a no longer required network asset.

The MEU considers the AEMC must address this issue.

Solutions would have to encompass approaches such as:

- OFA agreements fixing a term for the agreement and then writing off the augmentation costs over the term of the agreement. This of course could lead to the cost of an OFA project being excessive and therefore not being implemented
- TNSPs taking the risk on default of the generator - this would result in TNSPs being allowed a higher return on OFA assets to accommodate the increased risks they face
- Consumers taking increased risk exposure - this is an option that the MEU does not consider is reasonable or appropriate

2.1.1 Financial certainty for generators

The MEU supports the concept of the OFA and it notes that the AEMC considers that the financial certainty for generators is a core driver of its review. The MEU agrees with this but adds that the provision of this certainty must not be at the expense of consumers. Aspects that need to be considered in this regard are:

- If generators pay for OFA this will increase their costs, causing their selling prices to be higher. This increased cost will be passed onto consumers.
- Will OFA lead to some generators being able to better control the market? For example, will the dominant generator in a region be able to lock out competitors?

Such financial certainty is equally important to consumers as they, in turn, make considerable investments based on the assumption that not only will electricity be available, but that the price of electricity remains at levels that allow consumers to enjoy the benefits of the investments they have made.

The OFA must be structured in such a way that it does not result in generators being able to use the OFA to the detriment of consumers, such as not investing to relieve congestion which allows generators to increase prices without competition or to acquire firm access rights that will prevent others from providing competition.

The OFA process must not favour any one form of generation over another.

There is another concern for consumers that needs to be raised. In providing certainty for generators, there is a risk that subsequent to a TNSP making an investment based on the OFA agreement, the generator defaults or goes out of business. The network investment by then is sunk. Does the TNSP take the risk for default or is it expected that the investment will be rolled into the RAB and then consumers become responsible? It would appear that as the OFA payments are deducted from the allowed revenue, the RAB will be expanded and so effectively consumers will underwrite any shortfall from the OFA process unless there is some other mechanism implemented to protect consumers.

2.1.2 Effective inter-regional hedging

The MEU recognises that the current arrangements do not really permit contracting over interconnectors and therefore trading across interconnectors is almost non-existent. MEU members report that retailers will not offer firm contracts between regions under the current arrangements. By allowing a better arrangement for providing firm capacity on interconnectors this should improve the potential for contracting between regions.

Despite this, the MEU is concerned that actual interconnectors are owned by two different TNSPs and that often constraints on interconnectors are due to congestion deeper within one or other of the two transmission networks. Greater clarity is required on how under OFA these constraints can be overcome when trading between regions.

The OFA appears to limit involvement in acquiring firm access on interconnectors to just market participants and would only be available for terms of one year. Consumers, especially those located near regional boundaries, have an interest in acquiring firm access on interconnectors over a longer term than just one year as this would allow them to source electricity from a lower priced region and to be able to establish firm access for the term of any contract for supply they enter into.

The MEU considers that consumers as well as market participants should be permitted to acquire firm access on interconnectors and for a longer term than just one year.

2.1.3 Efficient incentives on TNSPs

The MEU supports providing incentives to TNSPs to provide a better service but only if the resulting benefit exceeds the reward provided. This means that there has to be a discernable benefit of providing a reward and that the value of the benefit exceeds the reward paid.

The MEU has seen that rewards have been paid when there has been no benefit to consumers - possibly due to the structure of the incentive scheme.

Further, the way the development of the allowable revenue is structured, it is difficult for the regulator to be certain that some allowances for opex and capex do not provide outcomes that ensure the service provision is exceeded and therefore consumers pay twice - once by providing the resources to achieving better performance and then again through the incentive scheme for delivering better service.

The AEMC needs to ensure that the OFA incentive process does not result in rewards being generated when the costs for providing the service have been provided under a different source; that is that the service provider does not get a reward for doing nothing or from some one else's contribution.

2.1.4 Efficient dispatch of generation

A reduction in congestion should increase competition and allow efficient dispatch of generation.

The MEU has noted above, that there is the potential for generation not to want to reduce congestion. The OFA is focused on providing a mechanism for generators to procure firm access if they want to, but there has to be a mechanism where consumers can pay for reduction of congestion which would lead to better outcomes for consumers.

Currently consumers are prevented from investing in the network to reduce congestion (and thereby preventing exercise of market power) as the outcome is seen as a "transfer off wealth" from consumers to generators and therefore there is no net benefit⁴. I

n contrast, under the OFA, generators are being provided with a mechanism allows them to invest in the network in order to reduce congestion, thereby allowing them to gain better access and increase their revenue.

⁴ This is clearly an outcome of the RIT-T process which requires a net benefit for investment in the network rather than a net benefit to consumers

The MEU considers that if it is allowed by the OFA that generators can invest in the network in order to allow them a benefit, then it is also appropriate that consumers should be allowed to invest in the same way. This would allow consumers to invest in areas of the networks where generators do not seek to relieve congestion but where the relief of the congestion would provide a net benefit to consumers.

Basically, the OFA will provide a mechanism for generators to invest so they can benefit but this same right is not available to consumers because this is prevented under the RIT-T.

Why should consumers not have the same benefit available to generators?

2.1.5 Efficient incentives to manage the trade off between operation and investment

Great care is required to ensure that the incentive is not funded from other parts of the allowed revenue such as opex and capex.

The MEU notes that the market impact component (MIC) of the STPIS would need to be removed and this is recognised in the draft report.

Equally, the MEU notes that a number of the projects proposed under the network capability incentive parameter action plan (NCIPAP) of the STPIS relate to reducing network congestion. So there needs to be an express requirement in the NCIPAP that consumers are not to pay for work that is intended to be addressed by the OFA.

2.1.6 Efficient investment in new capacity

The draft report notes that there is a risk of under-investment under the OFA as "private interests do not equal public interests". Equally there is the risk of over-investment. The MEU agrees that both outcomes are risks and need to be managed.

The MEU is concerned that the issue of network reliability as determined by jurisdictions on behalf of consumers has the ability to obviate some of the drivers for generators seeking augmentation under the OFA. The MEU considers that the further the flowgate electrically is from the generator, the more likely an augmentation will be driven by consumer reliability requirements than generator firm access, transferring the cost of better access for a generator to consumers.

Implicit in the approach contemplated by the OFA is OFA augmentations are included in the allowed revenue. The agreed fixed price in an OFA agreement with a generator will be based on the forecast capex for the augmentation. This means that TNSP errors between forecast capex and actual capex for an OFA augmentation will be carried by consumers

Further, as noted in section 2.1, there is a long term risk to consumers of any investment made under the OFA.

2.1.7 Efficient investment in new generation

The MEU agrees that having better generator locational signals is essential, and to a large extent, the current very weak signals have been a significant cause of the generator congestion that has occurred. The locational signals provided by the OFA will better influence generator decision making but only to the extent that a new generator seeking to use the same transmission assets as an existing generator has similar operational costs to the existing generator. Where the operating costs of a new generator are considerably different (especially lower) to those of an existing generator using the same transmission assets then the OFA will force the existing generator to pay for enhanced access. So the locational signals might not be as strong as the OFA approach implies.

The MEU has long been of the view that if generators had to pay for the transport to deliver their product to market they would address the locational costs as part of their analysis. The OFA will have some impact on where new generation locates but not in all cases - this particularly applies to renewable generation where operating costs are very low.

The OFA is the beginning of the shift to generators recognising they have to pay more attention to their location but it is not a total solution.

2.2 Firm access standard

The MEU can understand the differentiation needed between the planning standard and the operating standard.

Effectively consumers pay for a network that should under most conditions provide firm access to consumers, but not under all conditions - this is the planning standard. Under the STPIS consumers pay a bonus if the overall performance by the TNSP delivers a better service than it has historically. If service is less then TNSPs pay a penalty.

The MEU sees that the planning standard would address a specific set of conditions that, if not met, would mean that the generator with firm access might not gain access. The MEU is concerned that under the planning standard consumers might be exposed to the costs of implementing the planning standard that is offered to the generator. It must be made clear that this is not the case.

The OFA needs to be clear that the bonus paid under OFA must come from the generator impacted and that a TNSP penalty payment must only go to the generator negatively impacted. The MEU is concerned that there will be confusion and cross payments between the penalty/bonus arrangement under the STPIS (which is

between consumers and TNSPs) and the OFA which is between TNSPs and generators.

What is also not clear is whether the generator can elect its own standard. For example, for a highly certain generator access under the OFA, N-1 level reliability might be appropriate as a planning standard. But a generator might decide that after a cost/benefit assessment, N level reliability under the OFA is more commercially attractive. Will the generator be able to elect its own level of reliability for the firm access?

The MEU supports the view that the operating standard should address all conditions and not allow any exclusions. In contrast, the MEU notes that the operating standards used for service performance assessed under the STPIS (applying to consumers) provides for exclusions.

However, the MEU considers that setting the initial level of service for OFA agreements will be challenging for the regulator.

2.3 TNSP Incentive scheme

The MEU seeks confirmation that the introduction of the OFA operating standard replaces the MIC included in the STPIS. Maintenance of both will result in TNSPs gaining double payment for the same outcome.

As with any incentive scheme there is a need to ensure that the incentive does not result in unintended consequences. The MEU considers that the OFA incentive scheme must ensure:

- There is no risk that a payment against the planning standard biasing the incentive against the operating standard
- That the generator does not pay twice - once against the planning standard and then again through the incentive
- Consumers are not exposed to any risk

Of the two incentive options identified, the MEU considers option 2 is a preferable approach for bonus/penalty payments for the operating standard. The STPIS used for rewarding TNSPs for service performance is paid annually and this has operated satisfactorily for many years. It also maintains a requirement across the full year for the TNSP to provide better service than the pay-as-you-go approach implicit in option 1.

The MEU also supports the concept of "nested" incentives for the reasons provided in the report.

2.4 Issuance of long term I/R access product

The MEU has a number of questions about this aspect of the OFA that are not apparent from the discussion in the report.

- Is access to the I/R access product available to consumers? If not, why not.
- Why is the short term access product limited to quarterly auctions?
- Why can't the long term access product be sourced for longer than one year at a time? There is discussion that the planning access standard for I/R access is set annually but the intra regional access standard is also set annually yet for the OFA periods longer than one year are contemplated. In fact, contract access periods for longer than one year are desirable when augmentations are implemented regardless of whether the augmentation is intra- or inter-regional.
- Is there an interaction between the I/R access product and the inter-regional TUoS product that is due to commence in 2015?
- As the auctions are run by AEMO, how are TNSPs locked into the process? Currently TNSPs, under the RIT-T process, augment the interconnectors (including addressing any intra regional congestion impacting the interconnector) and TNSPs are incentivised to maximise uptime under the MIC of the STPIS.

The OFA mechanism interferes with the RIT-T process and would still need to reflect that the cost of providing firm access on the interconnectors are carried by TNSPs and that the benefit of an augmentation must exceed the costs. TNSPs are also the parties that provide the uptime of the interconnector and need to be incentivised to achieve "best practice". Yet the proposed approach to the OFA concept for interconnectors seems to remove the TNSP performance from the process.

Consumers should not be the default underwriter of costs or rewards if the beneficiaries of the augmentation or out-performance are retailers and/or generators.

2.5 Sort term access

The report implies that short term access would be 3-5 years. Elsewhere short term is indicated to be 3 years as this is seen as an appropriate lead time for an augmentation. There needs to be a clear and consistent definition of what is short- and what is long-term.

Short-term access is available because some one else has already paid for the assets that provide this access, so the cost of providing the assets for the firm access is zero. At the same time, the TNSP may incur costs in maximising the uptime for the access.

The benefits arising from the short term access product should revert to that party which provides the access. If the short-term access is available from a combination of someone else providing the access and the TNSP incurring costs to maximise uptime, then the benefit should be shared.

It is not clear how the OFA short term process is to be implemented.

2.6 Access settlement parameters

A number of consumers have generation included in their operations and these are most commonly classified as embedded non-scheduled generators. In such a case there is a single connection to the network which allows for two way flow - import and export, although the maximum export is usually less than the maximum import.

What is the OFA impact when

- the load reduces resulting in export at the connection point?
- the export is less than nameplate rating?

2.7 Staged implementation

The MEU considers that the timing of the implementation of the OFA is no longer critical due to the AEMO assessment that there is no need for new generation in the NEM for the next decade. The only new generation that might be introduced is renewable generation incentivised under the renewable energy target (RET) and the recent review of this advises that the RET should be scaled back considerably. This means that the pressure to implement the OFA has eased considerably.

Despite this, the draft report states that the OFA could be introduced earlier if all TNSP resets were aligned as recommended by the Transmission Frameworks Review. Under the current market conditions, trying to force alignment of the TNSP resets so that the OFA can be implemented earlier is a bit like the tail wagging the dog.

In this regard the MEU notes that there is no consensus about whether all TNSP resets should be aligned and whether there are sufficient benefits to outweigh the considerable detriments of such a process. To overcome any constraints to OFA from having non-alignment of resets, augmentations for OFA can be included in a reset as contingent projects allowing a project to proceed when the conditions are right, thereby allowing different timings for resets but allowing OFA implementation to proceed at a common time.

The implementation of OFA encompasses a number of steps but the report provides no materiality assessment for each step; assessment of materiality for each step is an essential aspect of identifying the best implementation option. Until some

materiality is developed, views on the implementation process can only be made at a high level.

The draft report provides a view that there are three high level implementation options, viz simultaneous, temporal and geographic.

The MEU considers that simultaneous implementation introduces constraints that are not warranted especially as in the initial stages much of the firm access will be needed by a very few existing generators and any augmentation will take up at least three years to implement; this means that only short term OFA access will be available for allocation in the initial stages although initial planning for long term access could commence. The report notes that simultaneous implementation would require all resets to be aligned by the implementation date targeted in 2016. Realistically, there can be no alignment of all TNSP resets by this date, even if this was seen as necessary.

The introduction on a geographically staged implementation process is seen by the MEU as inappropriate for the reasons developed in the report.

This leaves the temporally staged implementation as the only feasible option and the MEU considers that this would still be the best approach even if the others were feasible.