



Optional firm access project commences

Terms of reference received

The Standing Council of Energy and Resources (SCER) has directed the Australian Energy Market Commission (AEMC) to undertake detailed design and testing of a new transmission model called optional firm access. The Australian Energy Market Operator (AEMO) will undertake an associated work program.

Scope of the project

This project requires us to develop, test and assess the optional firm access model that was initially proposed as part of our Transmission Frameworks Review in 2013. Our work program will assist governments and industry participants to better understand the potential costs, benefits and risks of implementing optional firm access.

SCER has requested us to:

- Confirm or modify the design of the optional firm access model as a result of testing and evaluation.
- Engage with industry participants and governments to build understanding of the model and the potential impacts of its implementation.
- Recommend whether to implement the optional firm access model, and if so, how it could be implemented.

Terms of reference for the project are available on our website.

AEMC and AEMO working together

The AEMC and AEMO will be working cooperatively to develop, test and assess the optional firm access model. There are elements of the model on which one organisation or the other will focus. Both organisations will contribute to an assessment of the impacts of implementing the model and to implementation planning.

Because of the interlinked nature of the model, there will be significant overlap between our work programs. We will coordinate our activities and we will engage with each other to provide input across the entire program, along with minimising the work for stakeholders.

Next steps

The optional firm access model is complex. Implementing it would represent a fundamental change to the market. For this reason, we will engage extensively with stakeholders throughout the work program. This will include consultation through forums, written reports, industry workshops and targeted stakeholder meetings. We will also set up an industry working group for technical matters and an advisory panel to provide review and guidance.

We will produce a plan for the timing of the project, including stakeholder engagement.

Background to optional firm access

In 2013 the AEMC published the final report of the Transmission Frameworks Review. One of the proposals we made was the optional firm access model, which included initial design principles. We recommended further development of the optional firm access model.

Optional firm access creates the ability for generators to “insure” against the risk of network congestion, which can limit their ability to sell electricity. Optional firm access would change the way generators access the market during times of congestion and the way that transmission investment decisions are made:

- Generators would have the option of buying firm access rights to manage congestion risk. These financial rights would take the form of compensation payments funded by generators without such rights, and would be underpinned by the provision of transmission capacity.
- In choosing to acquire firm access, generators would fund and guide the development of new transmission to underpin their access rights. Generators, rather than regulated transmission businesses, would drive some part of the decision-making about future transmission development.

Potential impacts of optional firm access

The optional firm access model is intended to promote more efficient investment in future electricity generation and transmission in the context of changing patterns of generation and demand.

Under current transmission arrangements, different processes for generation and transmission investment have the potential to result in a development path that does not minimise the total system costs faced by consumers. A key issue is the degree to which risk and decision making are aligned and allocated between the owners of businesses and consumers in these processes.

The optional firm access model would introduce more commercial drivers on transmission businesses and more commercial financing of transmission infrastructure. By enabling generators to make trade-offs between the cost of generation and the cost of transmission, the optional firm access model may help to deliver the most efficient development path.

The optional firm access model may also improve the ability of generators and retailers to contract with each other and between regions.

For information contact:

AEMC Chief Executive, **Paul Smith** (02) 8296 7800
AEMC Senior Director, **Anne Pearson** (02) 8296 7800

Media: Communication Manager, Prudence Anderson 0404 821 935 or (02) 8296 7817

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