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John Pierce, Chairman
Australian Energy Market Commission
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Sydney South NSW 1235

Geodynamics submission to the Australian Energy Market Commission's Transmission Frameworks Review

Geodynamics is Australia's leading geothermal exploration and development company, pioneering the development of Enhanced Geothermal Systems (EGS) technology. We welcome the opportunity to provide comments in response to the *Australian Energy Market Commission's Transmission Frameworks Review*.

Geodynamics as member of the Clean Energy Council (CEC) and supports the CEC's position on the review.

Geodynamics believes that connection to the transmission network on an equitable and strategic basis is the necessary long term approach needed for successful delivery of electricity to the Australian market.

Understanding and managing the risks associated with dispatch of generation during times of transmission constraints is one of the challenges faced by a new entrant generator. The existing National Electricity Market dispatch engine and its library of constraint equations is complex, difficult for a new entrant generator to comprehend, and correspondingly difficult to predict possible outcomes during times of system stress. Despite the complexity, the existing framework for developing and implementing constraint equations does not favour either existing or new entrant generators. This is a characteristic to be commended and to be retained.

In contrast the Optional Firm Access model proposed is likely to benefit incumbent generators at the expense of new entrant generators. In particular the consideration of grandfathering of free firm access rights to incumbent generators, whilst new entrants would be required to pay full price for firm access will clearly benefit incumbent generators at the expense of new entrant generators. Geodynamics strongly opposes the grandfathering of firm access rights.

Even in the absence of grandfathering of free firm access rights, the Optional Firm Access model is biased against new entrants generally. It is a fact of life that a new entrant is capital constrained, whereas existing generators in the middle of their asset lives are generating significant free cash flows. This results in existing generators being in a better position to fund the cost of Optional Firm Access than a capital constrained new entrant. There is also a risk that project financiers will

require new entrants to purchase firm access rights prior to providing finance. This will add to the upfront capital cost of new entrant generation. This may be offset by a lower cost of capital for the reduction in risk provided by “firm access”. It is not clear whether on balance the end result will be a higher eventual cost to the end user or a lower eventual cost to the end user. This should be one of the primary measurements for whether the Optional Firm Access model is a good or bad NEM reform. Geodynamics considers there has been insufficient analysis of this question.

In addition the AEMC oversight in not providing a cost – benefit analysis nor a material cost for the ‘disorderly bidding’ issue that the Optional Firm Access model is trying to resolve is cause for serious concern. The National Electricity Market has existing frameworks in place to enable network investment to take place and provide a physical solution to network constraints. Thus the financial derivative solution proposed for the ‘disorderly bidding’ issue, in the form of the Optional Firm Access model is only aimed at provided a solution to a transitory problem, thus underlining the importance of a comprehensive cost – benefit analysis. The Optional Firm Access model is a very complex financial derivative whose risks of unintended consequences have not been sufficiently evaluated. In addition financial institutions do provide financial derivative and insurance products similar to the proposed Optional Firm Access model. Geodynamics considers there has been insufficient analysis to demonstrate the Optional Firm Access model is superior to the products offered by financial institutions.

In conclusion Geodynamics considers that the Commission should undertake further work to develop the proposal, in particular with regards to the Optional Firm Access model. Geodynamics looks forward to the results of the AEMC’s review. If you wish to discuss Geodynamics submission further please feel free to contact me on (07) 3721 7500.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Ward', written in a cursive style.

Geoff Ward

Managing Director & CEO
Geodynamics Limited