



30 January 2015

Mr John Pierce, Chairman
Australian Energy Market Commission
Submitted Electronically: EPR0039

Dear Mr Pierce,

Alinta Energy (**Alinta**) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (**AEMC**) request for comment in relation to the Optional Firm Access (**OFA**) work stream which is currently in the detailed design and review stage of the AEMC's rule change processes.

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing retail customer base of over 800,000. Alinta is currently a member of the OFA industry working group hosted by the AEMC.

Background

Alinta understands the AEMC has been directed by the Council of Australian Governments Energy Council to further investigate stakeholder's views on the need for OFA and their expectations of the future direction of transmission reform.

The AEMC's 2013 *Transmission Frameworks Review* identified the case for reform in the area of transmission planning and access rights. Subsequently the AEMC noted general support to deliver a methodology which could contribute to the achievement of the following objectives:

- The provision of access pricing to the market, enabling it to adapt to changing conditions, particularly demand and generation patterns.
- The introduction of commercial drivers on transmission businesses, and commercial financing of transmission infrastructure, thus minimising the total cost of building and operating the system over time and subsequently minimising prices for electricity consumers.
- The co-optimisation of generation and transmission investment by promoting the efficient utilisation of spare network capacity.
- The shifting of some transmission investment risk away from consumers.
- The enablement of generators to signal where they value transmission capacity.

Alinta's views

Alinta anticipates that establishing firmer transmission rights may help resolve the following concerns:

- The current market arrangements for generator access to transmission assets tend to favour large participants over smaller participants. Through the construction of their portfolio, some larger participants have the ability to create an internal hedge which ensures delivery of economic rents during times of constraints (including those constraints in neighbouring regions). However the size and location of Alinta's portfolio means that Alinta does not gain the advantage of a natural hedge against constraints and has a limited ability to respond when such circumstances arise.

- The absence of obligations for transmission network service provider's to upgrade or maintain existing transmission lines for existing generation assets, is an oversight in the National Energy Market that requires rectification.
- Alinta's remote position in the South Australian Flinders region means that there is a risk that these assets could face additional congestion constraints and potentially become stranded if the increasing penetration of new entrant renewable generation continues without access to firm transmission rights.

A number of options for reforming the current arrangements for generators to access transmission assets were considered following the *Transmission Framework Review*; however the AEMC's preferred approach was and remains OFA.

Alinta is generally indifferent to the exact methodology that is adopted by the NEM provided it contributes to resolving Alinta's aforementioned concerns. Although OFA is not necessarily an unsuitable methodology for the market to adopt, it is increasingly looking unnecessarily complex and would benefit from substantial simplification. Unfortunately, the AEMC holds the view that the core features of the OFA methodology cannot be deviated from and that either the implementation of the OFA methodology is completed in its entirety or no change at all.

Alinta views the AEMC's all or nothing approach as concerning as it strongly suggests that if one component of the OFA methodology is unsatisfactory or difficult to justify, all possible reforms to the existing arrangements for generators to access transmission assets will be abandoned. This has given rise to the present situation where the OFA methodology has no strong advocates in industry. Alinta has consistently argued that while the AEMC is encouraged to progress analysis of the OFA, it should not be the case that distinctly separate aspects of the proposed OFA that are found to deliver benefits should not, or cannot, be advanced in isolation.

Alinta does not support abandonment of the current reform process – however in its current form, it is unlikely Alinta would support full implementation of the OFA methodology

A clear case for change to the existing transmission planning and access rights was identified by the market a number of years ago and strongly supported by the outcomes of the AEMC's *Transmission Frameworks Review*. At a conceptual level OFA has the potential to be an appealing methodology which provides a range of benefits as documented throughout the AEMC process. Whether all these benefits can be achieved in practice is more uncertain and should be assessed on a case by case basis as it is unclear that all aspects of the OFA model can be justifiably implemented at this point in time.

Alinta consequently supports an abridged OFA methodology being developed by the AEMC that would facilitate potential staging over the longer term and enable core aspects of the methodology that are supported by industry to be implemented in a timely manner. Importantly, if a less complex version of OFA were to be developed and progressed this may result in greater support from industry participants.

Should you have any queries in relation to this submission please contact Mr Anders Sangkuhl on, (02) 9375 0962.

Yours sincerely,



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Wholesale Regulation Manager