



Firm Access Standard and TNSP Incentives

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An important development

- AER is a firm supporter of
 - Operational efficiency improvements
 - Increased interregional competition
 - Strengthened locational signals via pricing to participants
 - Increased incentives for commercial development of networks across the supply chain
 - Efficient allocation of benefits and costs

Incentives

- Currently it is proposed that OFA would replace the MIC component of the STPIS
- OFA parameter
 - more extensive than the MIC
 - complex and potentially volatile
 - No exclusions
 - Applies to all periods
 - TNSP incentives need to match parameters they can control
- AER will work with all stakeholders to develop a stable, repeatable measure that is simple to apply

STPIS

- AER Learned quickly that the implementation is complex
- STPIS was
 - developed over a number of years
 - with a number of refinements
- OFA should keep incentive parameters out of the formal rules to facilitate tuning

AER Perspectives

- Access settlement
 - Provides some locational signals but
 - May not be completely effective on its own
 - Allocations without OFA would defeat locational signals
- Transition – should be short
 - Learning time is valuable but delivers no benefits
 - Consumers benefit most from a short transition
 - Locational flexibility - link to network development triggers for replacement and/or augmentation

AER Perspectives

- Key element is delivery of benefits to the market and customers
- More work needed to verify:
 - Reduced new entry project costs
 - Impacts of portfolio behaviours rather than individual generators
 - improved competition via improved interregional contracting
 - Locational signals enhanced further by firmer contracting between regions to support project development

AER Perspectives

- Transition allocates all capacity to generators
 - Should investigate other options
 - How do benefits change if not all IC capacity is allocated to generators?
 - Transitional permit pricing rather than a step
- AEMO access settlement model shows interesting outcomes
- OFA provides some market improvements but many existing issues remain