

15 December 2014

Mr Paul Smith
Chief Executive Officer
Australian Energy Market Commission

Online lodgement at www.aemc.gov.au

Dear Mr Smith,

RE: Optional Firm Access Supplementary Report on Pricing

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Commission (Commission) supplementary report on Optional Firm Access (OFA) Pricing.

GDFSAE supports the objectives for the access pricing component of OFA expressed in the supplementary report restated below.

1. Access charges are calculated through the application of an access price model based on a specified access pricing methodology that likely would be set out in the Rules.
2. Access charges are fixed at the time of procurement of firm access by the generator.
3. Access charges are cost-reflective: a generator is charged for the estimated costs that a Transmission network Service provider (TNSP) will incur to provide access.

GDFSAE also supports the objective of providing more effective locational pricing signals since this would lead to more efficient generator investment decisions. The current transmission access arrangements provide very weak locational signals via constraints and marginal loss factors calculated each year by the Australian Energy Market Operator. Placing a value on network capacity at each node in the system will assist generators in making decisions about where to locate new power stations or retire existing plant.

Improvements in the transmission access and pricing model would be of benefit under a regime of increasing distributed generation projects which are likely to seek to locate at points in the network remote from existing generation hubs.

GDFSAE understands the Commission's preference for an incremental cost model as opposed to for example, deep connection charges. An incremental model which aims to identify the additional costs that a TNSP would incur due to a generator decision to obtain firm access, should be able to provide a cost reflective signal to the generator seeking access, and therefore lead to efficient investment outcomes.

In establishing the incremental price at a given network location, it is reasonable that the starting point should be what network augmentation and development was already planned by the TNSP. This would include any work to ensure that the TNSP continues to meet its obligations according to the relevant reliability standards as well as any existing firm access agreements.

GDFSAE does not agree; however, that a TNSP should attempt to forecast the extent to which generators may seek to have firm access agreements into the future. The decision to enter into a firm access agreement will be made by a generator based on their assessment of the risk adjusted costs and benefits,

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and it is unreasonable to expect that a TNSP (or any external party) could predict such decisions with any level of accuracy.

In addition to the fact that a TNSP forecasts of firm access requests is unlikely to be accurate, GDFSAE also suggests that there is no need for such forecasts to be included in the TNPS pricing model. The pricing model should be based only on reliability forecasts, for which the TNSP is responsible, as well as the TNSP obligations to maintain any existing firm access agreements.

When a TNSP agrees to maintain a level of firm access for a particular generator, there are broadly only two considerations that have the potential to undermine the agreed access level:

- degradation in the capability of the relevant network elements, or
- subsequent firm access requests that impact on the same flow-gates as the first generator.

Apart from limited instances where local demand decreased substantially and out of line with the rest of the market, demand growth itself does not interfere with the agreed firm access levels. Once a TNSP has established a firm access capability for a particular flow path, that capability is not undermined by subsequent demand growth. Even if the TNSP, in performing its reliability planning function, determines that additional generation will be needed that will rely on the same flow path, the TNSP would then need to ensure that the flow path was capable of delivering both the agreed firm access level plus any additional capacity needed for reliability. There is no need for the TNSP to assume whether the new generation will be firm or not. The TNSP only needs to deliver network capability to meet its reliability requirements and any agreed firm access requirements. Any subsequent requests for firm access can be dealt with at the time of request.

GDFSAE appreciates the AEMC making the prototype pricing model available to industry to promote awareness and experience. As with any complex model, the quality of the outputs is inevitably directly related to the quality and robustness of the input assumptions. GDFSAE urges the AEMC to ensure that as the pricing model is finalised, that a high level of transparency is maintained regarding the underlying assumptions including demand growth, generator assumptions, and network replacement / augmentation assumptions.

Should you wish to discuss any matter in relation to the OFA project, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely



Chris Deague
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