



Optional firm access review: Final report

In the current environment the implementation of optional firm access would not contribute to the achievement of the National Electricity Objective. However, the model could be beneficial in a future environment where there is significant investment, but the patterns of this investment are uncertain.

The optional firm access model would introduce more commercial drivers on transmission businesses which, in an uncertain environment would minimise prices for consumers in the longer term. In order to be able to easily adapt to such a future, there should be regular reporting on a series of drivers of transmission and generation investment.

Final report

As requested by the COAG Energy Council the AEMC has designed, tested and assessed the costs and benefits of the optional firm access model to address issues related to co-ordination between transmission and generation investment in the National Electricity Market (NEM) under circumstances of changing energy demand and supply.

Previous reviews on similar issues

A foundation principle of the National Electricity Market (NEM) is that generation investment decisions are made on a commercial basis by businesses operating in a competitive environment. The result is that risks associated with generation investment rest with those businesses. Transmission investment decisions, however, remain the province of regional, centralised transmission network businesses (aside from in Victoria).

The way the transmission and generation investment decision making processes interact, and, in particular their operational consequences, have been the subject of ongoing debate since the establishment of the NEM in 1998. Since 1997 there have been eleven major reports and reviews dealing with various aspects of congestion management and generator access to the transmission network. Given the extensive work undertaken on the design and testing of the optional firm access model, the intent of the Commission is that, absent substantial changes to the nature of transmission and generation investment, there should be no need for further reviews on these aspects.

Assessment of optional firm access

Absent some major shift in market conditions and government policy settings, implementation of the optional firm access model would not contribute to achievement of the National Electricity Objective.

However, circumstances may arise in the future when there is a need for additional generation and transmission investment, in an environment where the location and type of investment is highly uncertain. In such an environment, benefits may be derived from adopting a model such as optional firm access, which would introduce more commercial drivers into transmission and generation development.

Reporting on and assessment of indicators

The implementation of a model like optional firm access would require substantial resources, and a likely three year lead time. So that the transmission frameworks respond and adapt to change in a timely manner, the Commission recommends periodic reporting and assessment of the implications for market development of a series of drivers for

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Reporting on and assessment of indicators (continued)

transmission and generation investment. The reporting and assessment could trigger consideration as to whether changes to the transmission frameworks need to occur.

Further, as noted above, there have been numerous reviews on the transmission frameworks. The recommended reporting regime will also allow consideration on whether such matters are material, and if so, what would be proportionate responses, through a clear and transparent process.

Consistent with its market development role, this reporting would be undertaken by the AEMC at least every two years.

Commission's recommendations to improve transparency

The optional firm access model was developed in response to concerns about the efficiency of the co-ordination between transmission and generation in the NEM. Some stakeholders have argued that there is no evidence of inefficient co-ordination in the NEM.

Therefore, the Commission considers that it may be beneficial to improve the transparency regarding the level of co-ordination between transmission and generation in the NEM in the future.

In particular, the Commission recommends the following changes:

- the level of transparency relating to the effect of transmission connections in the NEM on the network should be increased;
- the application of the Regulatory Investment Test for Transmission should be extended to apply to relatively major network replacements on major transmission flow paths; and
- the requirements in the Rules on making information about generator funded augmentations available should be reviewed.

Alternatives to optional firm access

Throughout the course of this review a number of stakeholders have proposed either simplified versions of optional firm access, or alternatives to optional firm access to address specific elements of the transmission frameworks.

However, the Commission considers that none of these alternatives better meet the National Electricity Objective than optional firm access itself.

What is optional firm access?

Optional firm access would change the way in which transmission and generation investment decisions are made, and would mean generators would bear more of the risk associated with some transmission investment. Generators could choose to pay for a specified level of access to the transmission network to manage the financial impacts of network congestion.

The Commission has developed, refined and enhanced the optional firm access model throughout the course of this review. Some stakeholders have expressed the view that optional firm access cannot be implemented in the NEM. However, the Commission is of the view that, from a functional perspective, the model could be implemented in the NEM although now is not the appropriate time to do so.

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