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EPR0039 - Optional Firm Access Design and Testing Review

Infigen appreciates the opportunity to participate in the AEMC's Optional Firm Access (OFA) process, progressing from its earlier Transmission Frameworks Review. Infigen Energy is Australia's leading specialist renewable energy business. Infigen Energy is the largest owner of wind energy facilities in Australia owning and operating six major wind farms with a total installed capacity of 557 MW. Infigen Energy is also actively developing large scale solar PV projects.

The primary potential advantage of OFA appears to be the opportunity for generation to purchase firm transmission access and inter-regional hedges, enabling all generators to compete in every regional market and deliver more efficient price discovery. OFA may also offer better price signals to assist targeting the best locations for future network and generation investment.

However, the AEMC is yet to provide a market-based cost-benefit analysis supporting the introduction of OFA, nor offer any quantifiable benefits to existing market participants or future network and generation investment. Furthermore, it is not clear how OFA participants will acquire materially better information on future network use and investment signals than the TNSPs. As a result OFA participant bids would most likely target the same locations the TNSPs have identified through their current centrally-planned processes. It is challenging to understand how OFA can offer a material improvement to location targeting than current practice where Marginal Loss Factors, the existence of known constraints and potential future constraints identified by grid connection studies already provide strong economic locational price signals.

Infigen has specific concerns about the introduction of OFA including:

- the risk of review events in long term power purchase agreements and project finance arrangements for smaller independent power producers (renewable and non-renewable alike);
- a reduced ability to refinance existing projects if OFA introduces additional costs that cannot be adequately recovered and/or causes financial institutions to decline refinancing based on a generator not having secured 'firm access';
- the proposed transitional firm access allocation methodology is somewhat arbitrary and does not support efficiency in the NEM; and

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- the likelihood of increased barriers to entry for individual utility scale energy projects by restricting grid connection access (as existing firm capacity has been previously allocated or purchased) and/or financial institutions being unwilling to provide debt to proposed generation projects without 'firm access'

It is clear from this review process that OFA will involve the most complex and far reaching restructure of the electricity market since its inception. The risk of significant unintended and unpredictable consequences is very high. It is not clear at all whether careful design, testing and implementation over several years can successfully mitigate these risks. The instability arising from continued policy uncertainty risks deterring further investment in new and existing utility scale energy infrastructure, at a time when the Australian electricity industry is experiencing profound change and needs pragmatic solutions.

Market reforms as significant and potentially disruptive as the introduction of OFA need obvious and significant benefits that are readily quantifiable; this has not been the case for OFA with the majority of potential benefits being qualitative in nature.

At this point Infigen recommends the AEMC reconsider continuing its work on OFA development and instead focus on other opportunities for electricity market improvement.

Thank you for the opportunity to contribute to the review process.

Yours faithfully

John McDonald
General Manager Energy Market Operations