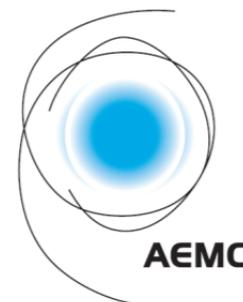


Optional Firm Access Advisory Panel

Meeting 4: 30 January 2015



The fourth Advisory Panel meeting was held in Sydney on 30 January 2015. The attendees of the meeting are listed below.

Member	Organisation
Brian Spalding (Chair)	Australian Energy Market Commission
Paul Connolly (via phone)	Department of Energy and Water Supply (Queensland)
Mark Feather (via phone)	Department of State Development, Business and Innovation (Victoria)
Vince Duffy	Department for Manufacturing, Innovation, Trade, Resources and Energy (South Australia)
Murray Chapman (substitute for David Swift)	Australian Energy Market Operator
Craig Oakeshott (via phone)	Australian Energy Regulator
Jo Benvenuti	Consumer Utilities Advocacy Centre
Keith Robertson	Origin
Rainer Korte	ElectraNet
Paul Johnson	Department of Industry
Charles Pople	Industry Adviser to the AEMC
Ross Bunyon	Special Adviser to the Commission

The following AEMC staff also attended:

Name	Position
Anne Pearson	Senior Director
Richard Khoe	Director
Victoria Mollard	Senior Adviser

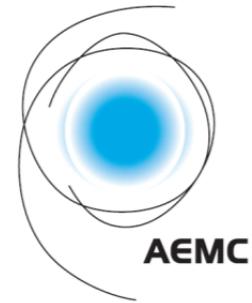
The COAG Energy Council (formerly the Standing Council on Energy) has asked the Australian Energy Market Commission (AEMC) and the Australian Energy Market Operator (AEMO) to undertake detailed design, testing and assessment of the optional firm access model. The model was proposed by the AEMC as part of the Transmission Frameworks Review in April 2013. In line with SCER's terms of reference for this review, the AEMC has formed the Advisory Panel to provide strategic advice on high-level issues.

AEMC staff presented the following matters at the meeting:

- an update on project timing;
- a high-level summary of submissions to the Supplementary Report on Pricing;
- an update on governance allocations under the optional firm access model; and
- the work that we are currently doing on assessing the impacts of optional firm access.

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During discussion of submissions to the Supplementary Report on Pricing, the following points were made by participants:

- It was noted that the pricing model trades off complexity, with the need to be perfectly reflective of reality. For example, estimates of the costs of resolving stability constraints are likely to be estimated on a rule of thumb basis for intra-regional access, since these costs are typically immaterial.
- It was also noted that the intention of the pricing model is about transferring risks from consumers to generators.
- It was also noted that it moves away from case-by-case negotiations over pricing.

During discussion of the proposed governance allocations, the following points were made by participants:

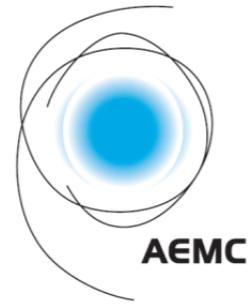
- Consumers noted the importance of having an effective dispute resolution process(es) in place for all of the elements of optional firm access.
 - Another participant noted that since optional firm access has commercial incentives built into the model, this may minimise the need for regulated dispute resolution processes.
 - However, if the incentives at the start of the regime are reasonably “shallow” it is important to have an effective regulatory framework for the regime.
- Participants had several different views as to what entity would be the most appropriate party to be allocated responsibility for the pricing model. The AEMC noted that the presence of a regulated pricing model, removes the need for negotiation in the optional firm access model.
- AEMC staff noted that it is being considered, if a recommendation was made to implement optional firm access, whether Tasmania would be included in this recommendation (or whether the recommendation would be to include Tasmania in optional firm access at some later stage). The preliminary view is that there would be higher implementation costs in Tasmania (due to a number of technical characteristics of the region), with lower benefits (due to the current market structure). AEMC noted that they will consider this issue further in the Draft Report.

During discussion of the work we doing on the assessment of optional firm access, the following points were made by participants:

- There was numerous discussions around whether congestion in the future is predictable or not; and whether optional firm access would help generators manage congestion risk or not. It was noted that at present some generators have no problem with getting access so it would be of less value to them.
- The AEMC presented modelling that has been undertaken by EY on the improved coordination of generation and transmission investment under optional firm access.
 - There was discussion about the various scenarios that were chosen to be modelled – and whether some of these scenarios were more likely to occur than others.

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- Participants asked whether this report could be made available prior to publication of the Draft Report. [We have made this report available on our website]
- Participants commented that while marginal loss factors are used to provide locational signals to generators currently, these do vary from year to year.
- Participants noted that if one of the benefits of optional firm access is to transfer risk from consumers to generators, the AEMC should consider how this wealth transfer may impact on customers. A comment was also made that generators may not be able to pass these costs on to consumers through wholesale prices and may have to absorb them.
- Finally, consumers noted it is important that consumer groups remain up-to-date with the progress and thinking on optional firm access. It was noted that it would be good for the AEMC to hold discussions with consumer groups prior to the publication of the draft report in mid-March.
 - The AEMC noted it is intended to provide a high-level overview at the Consumer Roundtable at the end of February, and offer a more detailed briefing to those consumer groups who would like that.