# Optional Firm Access – Design and Testing

AEMC Public Forum

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# Agenda

- Introduction
- Overall impression of changes since TFR
- Firm Access Planning Standard
- Incentives
- Concerns / more detail required

# OFA – Overall Impressions

- View OFA as a positive development if benefits can be demonstrated to exceed the (substantial) costs of implementation.
  - Need to know that the arrangements can be practically implemented
- Changes to the proposed Firm Access Standard and Incentives are seen as improvements in the model
- Still need more detail on some key aspects
  - LRIC pricing model, relationship between generator and TNSP under OFA, long-term inter-regional product

# Changes since TFR

- GA considers the changes proposed in FAS and Incentives improve the workability of the model
  - Distinction between Normal Operating Conditions and Abnormal Operating Conditions is somewhat arbitrary
  - How to apply incentives under AOC when the FAS wouldn't apply?
  - Incentives paid through settlements could be exhausted during the year
    - Nested caps help this but are not a complete remedy

# Firm Access Planning Standard

- AEMC expects the FAPS conditions “would be determined with reference to the expected occurrences of material constraints in a region”
  - This could be the conditions of minimum “headroom” in network capability
  - May be peak demand time, but not always
- GA supports the proposed flexibility in specifying the standard – able to adapt to different network topologies and generating systems

# Incentives

- AEMC has presented two options for Incentive Schemes
  - Option 1 – Target Shortfall Factor
  - Option 2 – Annual Shortfall Target
- Both options recognise that target flowgate capacity can't be provided at all times under all conditions
  - Option 1 – penalties / rewards settled progressively through the year through access settlements
  - Option 2 – penalties / rewards settled ex-post after the end of the year

# Incentives – Option 1

- Penalties / Rewards reflect actual shortfall costs in each Trading Interval – up to the relevant cap
  - Analogous to liquidated damages but the cap is not calibrated to potential generator losses / gains
  - Caps are pooled across all generators so how is a penalty / reward shared when a cap is reached?
  - Annual cap can still be exhausted before the end of the year
  - How to resolves disputes / contentious events in time for settlements? Who would resolve disputes?

# Incentives – Option 2

- Penalties / Rewards accumulate over the whole year – subject to relevant caps
  - Similar to existing STPIS
  - Annual settlement of penalty / reward can be distributed across all generators
  - Generator experiencing a shortfall event late in the year will still receive some payment, even if the annual cap has been reached
  - Sufficient time to resolve any disputes / contentions prior to distribution of penalties / rewards

# Incentives

- Grid Australia favours Option 2
  - Administratively simpler
  - Payments to / from generators don't depend on when a congestion event occurs (before or after a cap is reached)
  - Consistent with existing STPIS framework
  - Penalties / rewards should be viewed as operational incentives, not compensation

# Concerns / More Detail Required

- What is the nature of the relationship between Generators and TNSPs under OFA?
  - How is the TNSP service commitment to the generator made an obligation?
  - How is the generator obligation to pay the TNSP for the Firm Access service made?
  - Appears to be a commitment to a regulatory standard / outcome rather than a bilateral contract for a service
  - Similar to the shared network service received by consumers
  - Clarity around this will inform how best to enforce the FAPS

# Concerns / More Detail Required

- Not clear how an auction where only existing participants (by definition) can participate will reveal the value of long-lived investments
- Development of new / augmented interconnectors
  - How is the value of enhanced interconnector capacity to future, as yet unannounced or uncommitted, generators revealed / ascertained?
  - Can the demand-side, represented by Retailers, make sufficiently long-term commitments?