



AEMC Public Forum

Transmission Frameworks Review

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Peter McIntyre
Chairman, Grid Australia



- Overall comments on the Directions Paper
- Brief discussion on the assessment criteria
- Brief discussion on the use of commercial incentives
- Initial assessment of the five access models
 - These matters are complex and the positions in this presentation are necessarily subject to further development

- Support evidence based approach
- Change should be proportional to the problem and risks
- Agree with the focus areas identified
 - Access – 5 internally consistent options
 - Planning
 - Connections
- Agree with the AEMC that the ‘hard’ evidence for major change is limited at this stage of the review
- The process would be assisted by systematic compilation of the measures of the economic costs of congestion
 - Challenges in achieving this are acknowledged
 - The AEMC is encouraged to collate and document current relevant data

- Generally sound assessment criteria
- Overall objective of efficient integration of transmission and generation sectors supported
- Timeliness of transmission delivery a major issue
 - Line approval processes a major issue everywhere
 - Integration with RIT-T and revenue reset processes crucial
- Inclusion of the costs and risks of major change makes sense
 - e.g. implementation of full nodal pricing and FTRs in Texas
 - Costs ‘ballooned’ from an estimated \$60m to over \$730m

Use of Commercial Incentives

- These are crucial to the success of all five access options
- Require service delivery by commercial businesses to be effective
- Some issues to consider in designing incentive schemes:
 - Need to ensure that incentives relate to factors that TNSPs can control
 - Need to complement other drivers e.g. planning criteria/obligations, RIT-T assessment criteria, regulated rates of return, opex and capex incentive schemes
 - Need to integrate incentive scheme with the preferred ‘access option’ to promote desired TNSP behaviours
 - Formulating appropriate guidance in the Rules for the AER to develop and implement details

Package 1- Open Access Regime

Access product	Assigning rights	Dispatch, congestion & compensation	Charging	TNSP planning investment & operations	Institutional arrangements
No firm access	n/a	Dispatch occurs as now No compensation for being constrained off	No generator TUoS	No changes required, enhancements possible	No changes required, enhancements possible

- Clarifying operation of 5.4A overdue – currently creates unnecessary issues in the connection process
- Implementing this is low risk
- ‘No regrets option’ - does not prevent subsequent moves to other options

Package 2 - Open Access with Congestion Pricing

Access product	Assigning rights	Dispatch, congestion & compensation	Charging	TNSP planning investment & operations	Institutional arrangements
No firm access, but generators receive congestion rents	Rents allocated proportionally by capacity	Congestion priced at local node. Dispatch process as now	No generator TUoS	No changes required, enhancements possible	No changes required, enhancements possible

- Some redesign of transmission market incentives scheme may be required – still thinking this through
- ‘At face’ this option does not appear difficult to implement from a TNSP perspective

Package 3 – Generator Reliability Standards

Access product	Assigning rights	Dispatch, congestion & compensation	Charging	TNSP planning investment & operations	Institutional arrangements
Defined by reliability standards	Same standard across a 'zone'	Dispatch as now. No congestion price. No compensation for being constrained off	Charge reflects the cost of maintaining the standard	TNSPs plan to new standard, with incentives. Enhancements possible	Change required

- Potential benefits for transparency of transmission plans and investment decision making
- Not 'saleable' if transmission prices seen by end users rise – must be seen as 'generators pay'
- Interaction with revenue setting regime crucial to success e.g. contingent projects and reset cycles

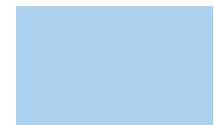
Current Status of Reset Cycles

Financial Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
SP AusNet										
ElectraNet										
TransGrid										
Transend										
Powerlink										

Current Control Period - Completed Years



Current Control Period - Years Still to Complete



Package 4 – Regional Optional Firm Access

Access product	Assigning rights	Dispatch, congestion & compensation	Charging	TNSP planning investment & operations	Institutional arrangements
Choose quantity of firm access to the regional reference node	Purchase of firm access	Dispatch as now. Firm generators in merit but constrained off compensated by non-firm generators, who are exposed to congestion costs	Firm generators pay a charge, non-firm generators do not pay	TNSPs plans to new standard, with incentives. Enhancements possible	Need to be considered

- Complex – details matter
- TNSP incentive design – linked to things they control?
- Need to manage implementation risks:
 - Data and modelling
 - Trials
 - Transition to full operation

Package 5 – National Locational Marginal Pricing

Access product	Assigning rights	Dispatch, congestion & compensation	Charging	TNSP planning investment & operations	Institutional arrangements
Ability to purchase firm rights to national hub	Rights are purchased at auction	Dispatch occurs as today but generators settled at price of their local node, giving congestion price exposure. Firm generators have rights to hedge price.	Firm generators purchase rights, no charge for non-firm generators	TNSP plans new standard. Incentives minimise cost of meeting rights, maximise capacity sales.	Single, national TNSP & other changes required

- Implementation risks very important – must have:
 - Data and modelling
 - Trials
 - Transition and implementation
- Texas experience or worse, a dysfunctional market?

- Recommend further compilation of information on congestion to inform the process
- Timing of transmission line delivery a major issue
 - Interaction between jurisdictional land use approval processes and RIT-T an emerging issue
- Option 1 – ‘no regrets’ and should be implemented
- Option 2 – need to reconsider current TNSP incentives?
- Option 3 – Should help integration of transmission and generation investment, but interacts with reset processes
- Option 4 – ‘jury out’: need to manage implementation risks
- Option 5 – implementation risks a major issue