

30 April 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online at: www.aemc.gov.au

Dear Mr Pierce

RE Draft report on Optional Firm Access design and testing (reference: EPR0039)

Tasmanian Networks Pty Ltd (TasNetworks) would like to acknowledge the extensive work undertaken by the Australian Energy Market Commission (AEMC) in relation to the design and testing of the proposed optional firm access (OFA) model. The introduction of OFA would be the biggest change to the wholesale energy market since the inception of the National Electricity Market (NEM) and the AEMC's investigation has been comprehensive.

Accordingly, TasNetworks concurs with the AEMC that, with completion of this investigation, there should be no need to undertake another investigation of congestion management and generator access within the NEM for some time to come.

TasNetworks supports the AEMC's draft assessment that, in the absence of major changes in market conditions and/or government policy, the implementation of OFA would not contribute to achievement of the National Electricity Objective. TasNetworks also shares the AEMC's view that, even were the implementation of OFA to proceed, Tasmania should be excluded from the implementation, unless there are material changes in the Tasmanian electricity market.

TasNetworks is a signatory to the submission on the OFA draft report made by Grid Australia on behalf of the electricity transmission networks in the NEM and endorses the sentiments expressed therein. I would, however, like to draw the AEMC's attention to a Tasmania-specific matter which is not addressed in the Grid Australia submission and is mentioned only in passing in the Draft Report on Optional Firm Access, Design and Testing.

In Chapter 12, Volume 1, of the Draft Report the AEMC highlights a number of differences between Tasmania's circumstances and those of other jurisdictions, which make the implementation of OFA more difficult in Tasmania than elsewhere within the NEM. While the Draft Report acknowledges in Section 12.2.1 a number of important obstacles which would need to be overcome before OFA might be of benefit in Tasmania, the discussion omits any mention of the fact that the prototype OFA pricing model did not produce representative prices for Tasmania.

This is a critical point for TasNetworks which is only alluded to in a footnote in Volume 2 of the Draft Report. Despite the recommendation that Tasmania *initially* be excluded from any implementation of OFA, the Draft Report overlooks the fact that considerably more work is needed on the long run incremental cost (LRIC) model before it yields representative results for Tasmania. And even then, it might not be possible for the model to produce meaningful results in a Tasmanian context, given the assumptions upon which the draft LRIC model is based.

Whilst being supportive of the over-arching conclusions drawn by the AEMC regarding the implementation of OFA, TasNetworks asks that the pricing model's failure to produce realistic prices for Tasmania be identified as an issue of significance. This would need to be addressed before implementation of OFA in Tasmania could be considered in the future.

To discuss any of the issues raised in this letter, please contact Kirstan Wilding either at Kirstan.Wilding@tasnetworks.com.au or on 6271 6696.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bess Clark', written in a cursive style.

p.p.
Bess Clark
General Manager, Strategy and Stakeholder Relations