

**Jo Benvenuti, Speech to Optional Firm Access public forum,
14 August, Sydney**



**Approach to assessment framework and
implementation of Optional Firm Access**

Jo Benvenuti
Consumer Utilities Advocacy Centre

OFA Design and Testing: First Interim Report Public Forum, 14 August 2014, Sydney

CUAC acknowledges the traditional owners of this land, the Gadigal people of the Eora nation, and we pay our respects to their Elders both past and present.

We welcome the opportunity to speak at this forum, and thank the AEMC for inviting us.

The NEM is an interesting construct. After 15 years of operation, it seems the list of issues to tackle has scarcely diminished – not because the NEM hasn't improved over time, but because new challenges keep arising. Change is, as they say, constant.



Optional Firm Access

- Deal with changing patterns of demand and generation
- Robustness, adaptability, resilience, sustainability
- Better coordination of investment in transmission networks and generation
- Decreased downside risk for consumers and generators
 - inefficient transmission investment decisions
 - volume and price uncertainty



OFA Design and Testing: First Interim Report Public Forum , 14 August 2014, Sydney

In this light it's heartening to see policy-makers explicitly considering change: one of the key strengths of the OFA model, as we understand it, is its ability to better deal with changing patterns of demand and generation. Robustness and adaptability are two very important policy considerations, and clearly desirable in a system that faces the risks and uncertainties the NEM does.

CUAC therefore welcomes the AEMC's and AEMO's goal to increase the NEM's resilience and sustainability. We also welcome the push to better coordinate investment in transmission networks and generation, and the potential decrease in downside risk for consumers in particular.

We support consumers facing less risk of inefficient transmission investment decisions, and generators facing less volume and price uncertainty. Improving the integration of market signals into transmission planning seems a sensible idea, with great potential to decrease total system costs and thereby increase the long-term benefits to consumers.

Optional Firm Access

- Design process should also be adaptable and flexible
- Issues to consider:
 - “Sculpting” of transitional access
 - Interaction between OFA and reliability standards
 - Interaction between OFA and demand side mechanisms
 - Opportunity cost AKA the best alternative

OFA Design and Testing: First Interim Report Public Forum , 14 August 2014, Sydney

However, just as the OFA framework strives for adaptability and flexibility, we caution that the process of designing that framework should be adaptable and flexible.

It is of great importance, we believe, that the framework development considers not just the framework’s potential strengths and benefits, but also its potential weaknesses and costs. Some issues we believe deserve consideration are: transitional arrangements; interaction with reliability standards and demand side mechanisms; and next-best alternatives.

Transitional arrangements

- Why should target level for “sculpting” not be zero?
- Should sculpt as quickly as possible
- Should treat all market participants – current and future – equally
- Should not entrench existing structures

OFA Design and Testing: First Interim Report Public Forum , 14 August 2014, Sydney

1. “Sculpting” of transitional access

We acknowledge that the implementation of the OFA framework would represent a material change in operation conditions for market participants, and that some form of transitional arrangements would be appropriate to lessen any shocks related to its introduction. Temporary provision of free OFA rights could well provide such an arrangement.

However, we have seen no compelling reason why the target level of free OFA rights should not be zero, nor why the ‘sculpting’ – the decrease in the number of free rights – should not occur as quickly as possible.

Further, we strongly oppose any transitional process that provides advantages to incumbent market participants over potential new entrants. At the time the NEM was developed, one of its objectives was that, “A person wishing to enter the market should not be treated more favourably or less favourably than if that person were already participating in the market.”¹ Rephrased, this principle states that no party should receive an advantage simply because it has entered the market earlier than another party.

As it applies to sculpting, this principle means that any new entrant should receive the same treatment as if it had been in the market when the transitional arrangements started. No party wishing to enter the market should be treated less favourably than one already participating in the market.

Given that a major goal of implementing an OFA framework would be to increase the NEM’s ability to change, it would be a perverse outcome if the transition to this framework entrenched advantages for incumbent participants or the current generation structure.

This should not be taken to suggest that CUAC thinks incumbents are ‘baddies’, to adopt the political vocabulary of the day; we recognise their role in supplying essential services currently and in supporting the transition to a low emissions future.

But, as we have seen vividly in Europe’s implementation of its emissions trading scheme and (thankfully) to a lesser extent in Australia’s, ‘grandfathering’ rights distort the market and create opportunities for windfall profits for incumbents.² In our view, this is clearly not in consumers’ interests; nor, indeed, would any other ‘gaming’ of transitional arrangements be in consumers’ interests.

Jenny Riesz and Joel Gilmore from the Centre for Energy and Environmental Markets, who are here today, co-authored a thoughtful paper with alternative transitional arrangements, and we believe these are worth considering.

¹ Outhred (2004) *The Evolving Australian National Electricity Market: An*

Assessment, quoting National Electricity Code Administrator (2003), *National Electricity Code Version 1*

² Power companies in Europe, notably in Germany, received free ETS permits but raised prices as if they had paid for them, citing ‘opportunity cost’.

Bruce Mountain for Environment Victoria has modelled windfall profits for coal power plants under the carbon price’s Energy Security Fund.



Reliability standards

- How can the potential benefits of the OFA framework be realised in situations where the reliability standards exceed the firm access standards?

Demand side mechanisms

- How will measures that reduce demand affect the viability of the OFA framework?



OFA Design and Testing: First Interim Report Public Forum , 14 August 2014, Sydney

2. Reliability standards

A further open question in our minds is the extent to which generators' desire for network capacity exceeds that of consumers'. By this we mean that, under the proposed OFA framework, there would be two standards for TNSP's to meet: the standard demanded by generators through their purchase of OFA rights, and the AEMC's reliability standards. The higher of the two is decisive for the level of network investment, and it is unclear to us how the potential benefits of the OFA framework can be realised in situations where the reliability standards exceed the firm access standards.

We are pleased to see that the AEMC have flagged this issue in their first interim report, and will be interested to see what they say.

3. Demand side mechanisms

While the OFA framework may make the NEM more robust and adaptable to change, it's important to note that it would not be a change occurring in isolation. Policies that target demand, whether at a distributed level or at the level of individual high volume users, increasingly have the potential to materially reduce congestion. While demand side policies don't address as many areas as an OFA framework might, their implementation may reduce a key potential benefit of the OFA scheme.

For example, if a TNSP could meet its relevant standards by reducing demand during times of congestion, there wouldn't necessarily be as much incentive for generators to secure firm access – they might end up paying to have their potential market reduced.

So we're interested to see how demand side policies might interact with the OFA framework – or, in the absence of demand side policies, how consumers themselves create a new demand-side scenario.



Opportunity cost

- What is the best alternative to solve the problems that OFA addresses?
- Under what conditions is the OFA framework (not) the best option?



OFA Design and Testing: First Interim Report Public Forum , 14 August 2014, Sydney

4. Opportunity cost

Finally, and more broadly, we ask: what is the best alternative to solve the problems that OFA is addressing? Is the OFA framework demonstrably better, or only under certain scenarios or assumptions?

While this project's terms of reference clearly specify it is about the design and testing of an optional firm access framework, we believe the rigor of the process can only be improved if one regularly asks: is the solution we're developing the best – or at least *one of the best* – ways of solving this problem? Or are we optimising a third-best policy?

None of my points today should be taken to mean that CUAC opposes an OFA framework. We maintain an open mind, and – as I said at the start – we support many of the goals the AEMC and AEMO are trying to achieve.

The work to date has been impressive, and we're keen to see further development of this concept and hear others' insights over the course of the day.

Thank you.