



6 February 2015

Mr Ben Skinner  
Specialist Market Development  
Australian Energy Market Operator  
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Submitted by email: OFAConsultation@aemo.com.au

Dear Mr Skinner

### **Optional Firm Access – Draft Report**

Origin Energy (Origin) appreciates the opportunity to provide comments to the Australian Energy Market Operator (AEMO) Draft Report on access settlement for the Optional Firm Access (OFA) model.

Origin agrees with AEMO that implementing access settlement independently of stage one would be impractical. Access settlement is a core element of the OFA model and given its central role in operating the model it was critical for AEMO to demonstrate it is capable of practical implementation in stage one. With the design of transitional access and a secondary trading auction as component parts for stage one are yet to be determined by the Australian Energy Market Commission (AEMC) it is difficult to conceive how AEMO could have recommended the independent implementation of access settlement.

Origin supports AEMO's decision to not draft a rule change proposal for implementing stage one of the OFA model given the limited identifiable benefits of access settlement. AEMO identified in the First Interim Report and confirmed in the Draft Report that implementing access settlement would be difficult and complex. Market design parameters outside of access settlement would limit any benefits in dispatch efficiencies with the cost of implementing access settlement likely to be greater than any benefits such that:

*AEMO has now formed the view that the benefits of stage one will not exceed its costs, and, given the complexity in developing it independently of the full OFA, has decided not to prepare a stage one rule change. AEMO intends to report back to the Energy Council ahead of the target timeframe with a final version of this report in early 2015.<sup>1</sup>*

#### *1. Stage one implementation*

AEMO was directed to undertake its design and testing consistent with the terms of reference provided to it by the former Standing Council for Energy and Resources. Specifically AEMO was tasked to develop the design of access settlement consistent with the AEMC design parameters and develop modelling techniques to estimate the likely benefits of implementing a first stage of the OFA framework. The AEMC outlined the design parameters for the design and stage one implementation of the OFA in the First Interim Report into Optional Firm Access, Design and Testing.<sup>2</sup>

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<sup>1</sup> AEMO 2014, Optional Firm Access, Draft Report, 23 December 2014, Melbourne. p. 1.

<sup>2</sup> The First Interim Report was explicit that the stage one implementation would require access settlement, transitional allocation of access and a secondary trading auction.

The design of the OFA model is inherently complex with stage one implementation impractical due to the level of complexity. In providing a rationale for the elements to be included in stage one implementation, the AEMC noted access settlement with firm access should be included in the first stage to enable generators to be paid compensation under network congestion where dispatch is constrained down. Secondary trading should also be in place at this first stage to enable trading of access to promote efficient holdings of access.<sup>3</sup>

The inclusion of transitional access and a secondary trading auction, in addition to access settlement, in stage one is clear in principle but difficult to implement in practice. The interrelationship of access settlement with transitional access and secondary trading, that are yet to be developed by the AEMC, renders the independent implementation of access settlement impractical. It is also not clear whether the AEMC will persevere with the detailed design work of the OFA model, including transitional access and a secondary trading auction given the substantial problems identified in developing workable models to confirm proof-of-concept.

## 2. Access settlement

The improvements in efficient dispatch outcomes expected from the implementation of access settlement and OFA more generally have been found by AEMO to be elusive. AEMO testing under recent market conditions indicated that dispatch efficiency gains from access settlement would be small due to a range of factors related to design parameters in the market.<sup>4</sup> It is estimated that the cost of the project is \$900k to \$2.4 million with total savings over 5 years from retiring Settlement Residue Auctions \$865k to \$1.057 million, offset from the cost of adding two new auctions for long term inter-regional access and short term firm access.

Origin has previously endorsed the approach of AEMO to assessing access settlement through a detailed and technical simulation of power system modelling through the Dispatch Training Simulator over stylised economic modelling. We have agreed with AEMO this approach would be more likely to reflect power system operating conditions and allow for the more accurate testing and identification of any benefits from access settlement.

Assessing the benefits of access settlement through simulating market outcomes based on recent market examples demonstrated any perceived inefficiencies in dispatch outcomes were attributable to other market factors outside of access settlement and OFA. In undertaking this design and testing work, however, AEMO identified numerous challenges with the design of access settlement derived from settlement and access being based on capacity and current market parameters that brings into question whether implementing access settlement would be in any way practicable.<sup>5</sup>

Following the assessment of the likely benefits of implementing access settlement, AEMO concluded:

*...that the introduction of access settlement, alone, is not the best way to address the majority of inefficient dispatch outcomes.... AEMO considers, on the basis of recent history that there are insufficient clear benefits to justify the cost of implementing stage one on a standalone basis in the current market framework.<sup>6</sup>*

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<sup>3</sup> AEMC 2014, Optional Firm Access, Design and Testing, First Interim Report, 24 July 2014, Sydney. p. 128.

<sup>4</sup> Ibid. p. 16.

<sup>5</sup> Ibid. p. 15.

<sup>6</sup> Ibid. p. 19.

Origin supports the conclusion AEMO has drawn from its extensive design and testing work and therefore endorses the decision to not progress with drafting a rule change for the independent implementation of access settlement.

3. *Efficient integration of transmission and generation and managing congestion.*

While AEMO has decided not to progress a stage one implementation, we note that it maintains that there is scope for an increase in dispatch efficiency particularly at times of network congestion. It is important to point out, however, that previous studies have indicated the cost of perceived inefficiencies in dispatch to be immaterial. The incidence of congestion, too, has often been shown to be driven by networks conducting concurrent outages – which have largely been addressed by incentive based regulation. Origin also notes that there have been a number of reviews into congestion management in the NEM and the issue of generator dispatch is currently subject to an AEMC rule change process. Given this, we would urge AEMO to carefully consider the need for any further work in this area, and that any future work stream is based on a clearly defined problem, and avoids duplication of any previous work.

Should you have any questions or wish to discuss this information further, please contact Ashley Kemp on (02) 9503 5061 or [ashley.kemp@originenergy.com.au](mailto:ashley.kemp@originenergy.com.au).

Yours sincerely,



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