



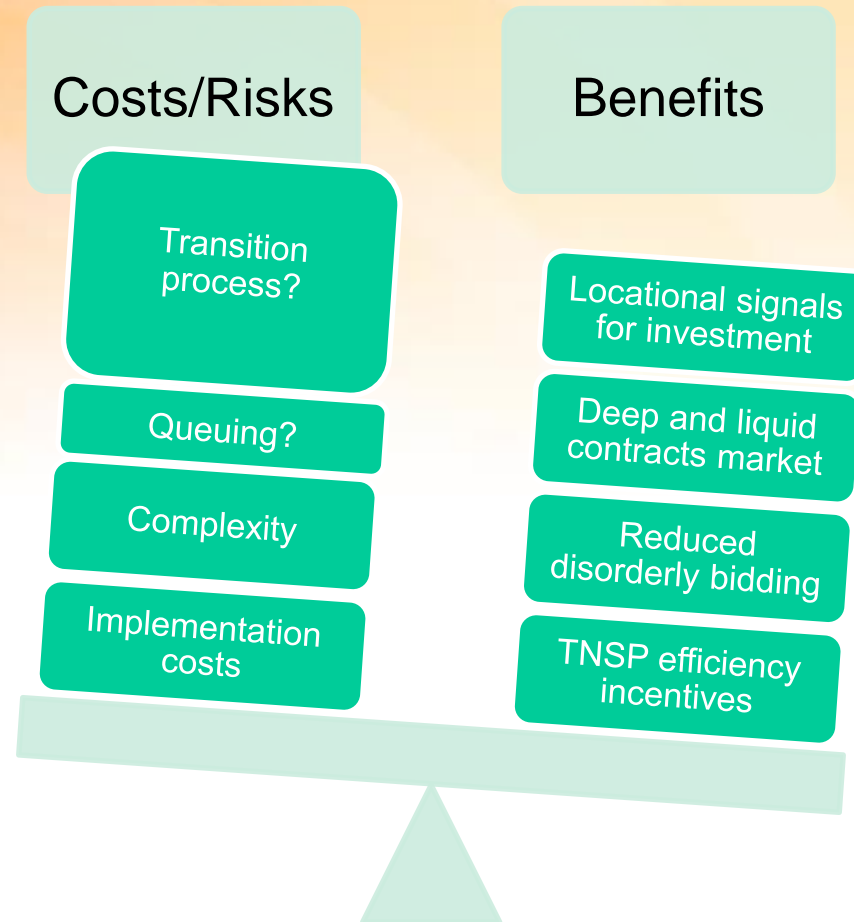
The Optional Firm Access Model

Devil in the details?

Dr Jenny Riesz

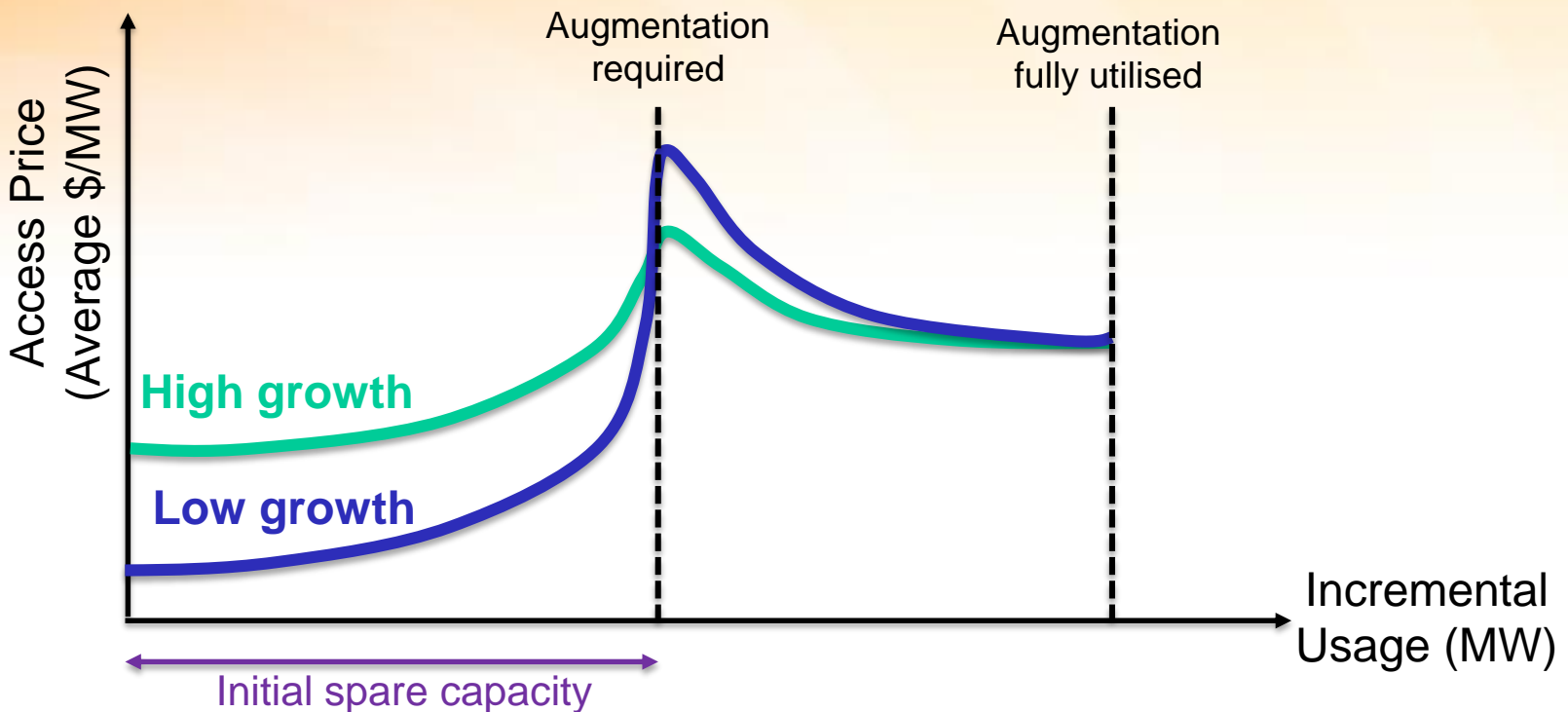
Clean Energy Week – 25 July 2013

AEMC assessment



Increased complexity in new connections

- Order of entry influences access price
- Queuing issues, especially important in low growth areas



Transition process

Objectives:

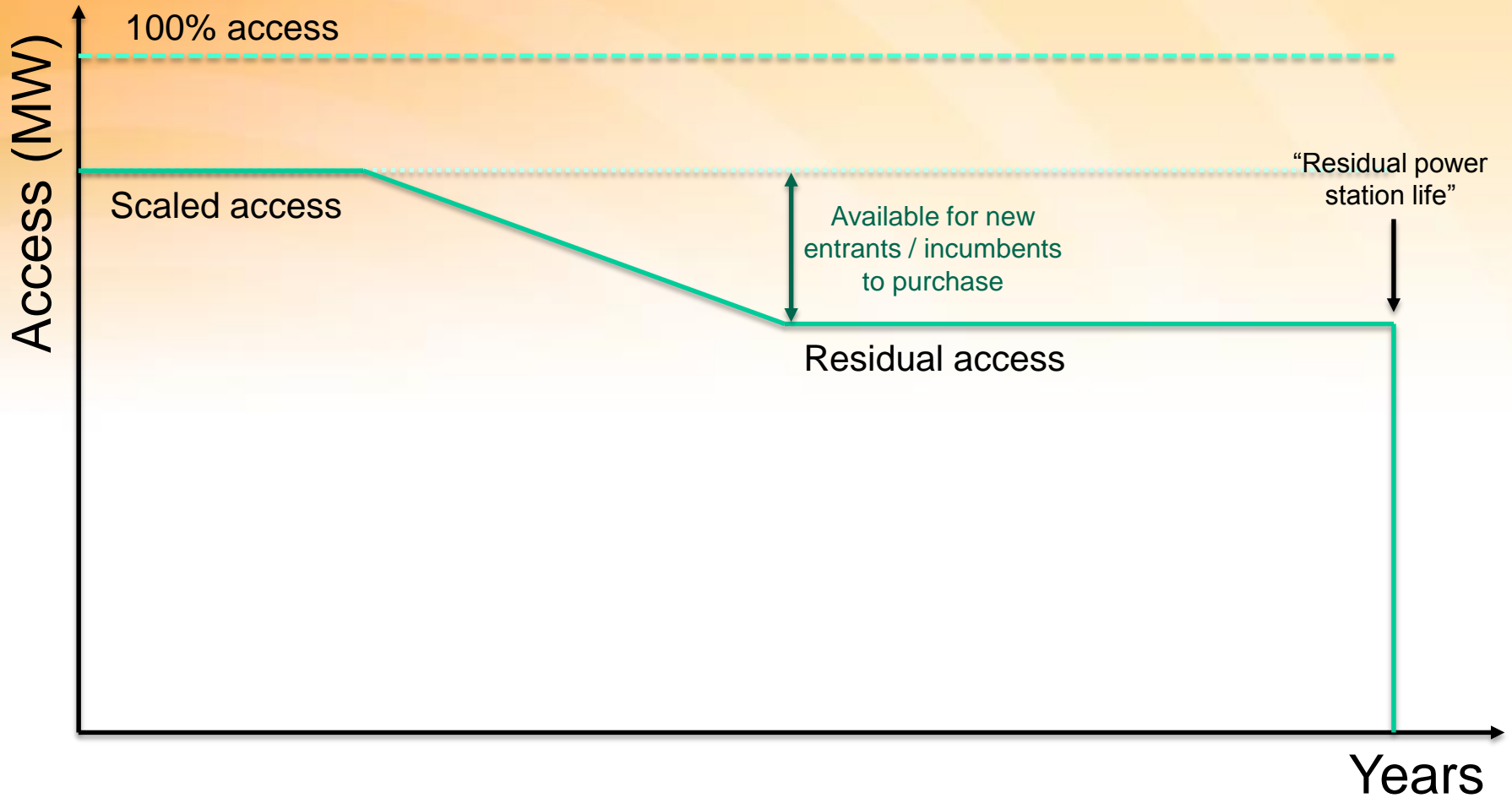
- Mitigate sudden market changes
- Allow time to develop capabilities and processes

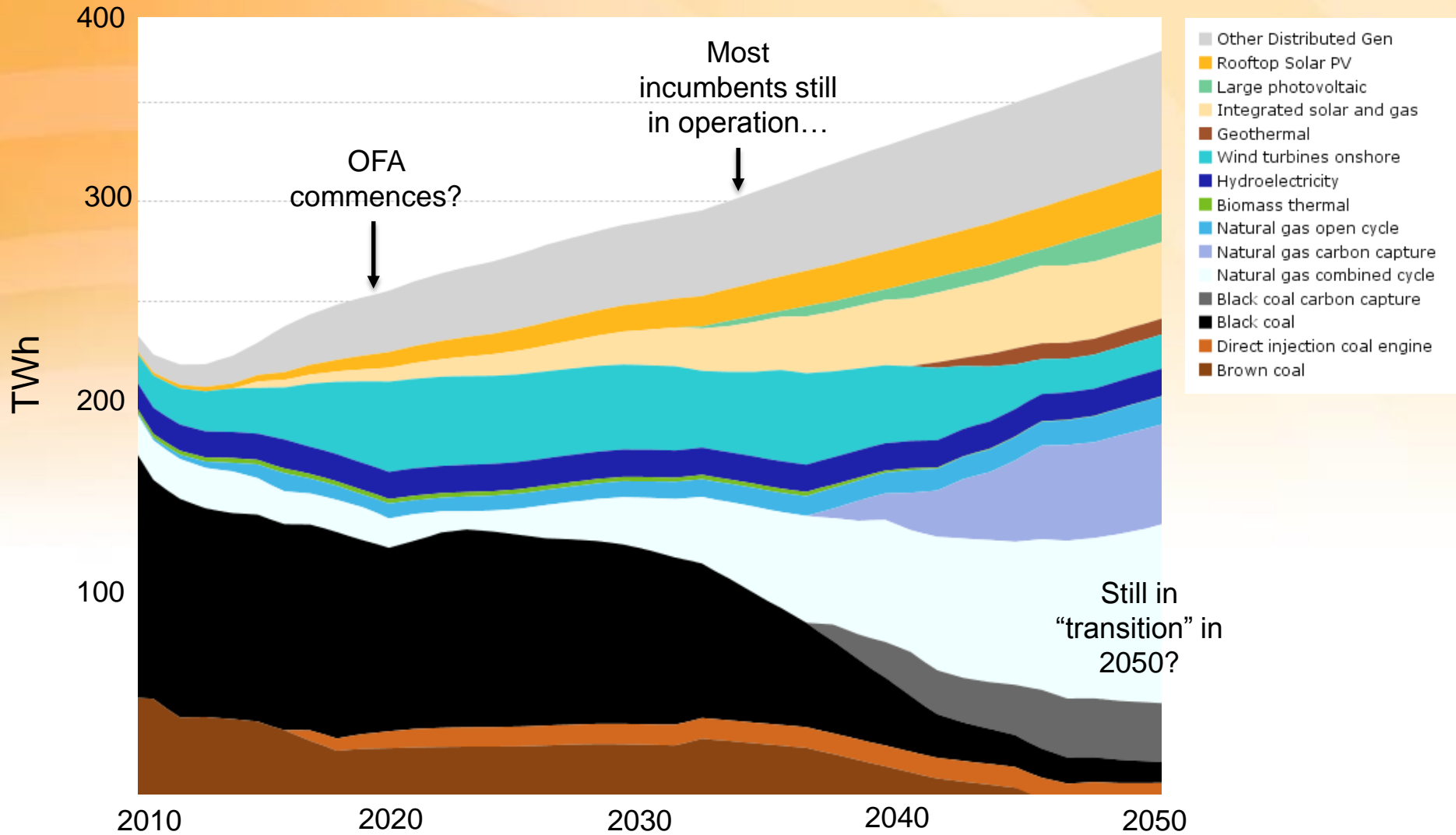


AEMC's recommended process:



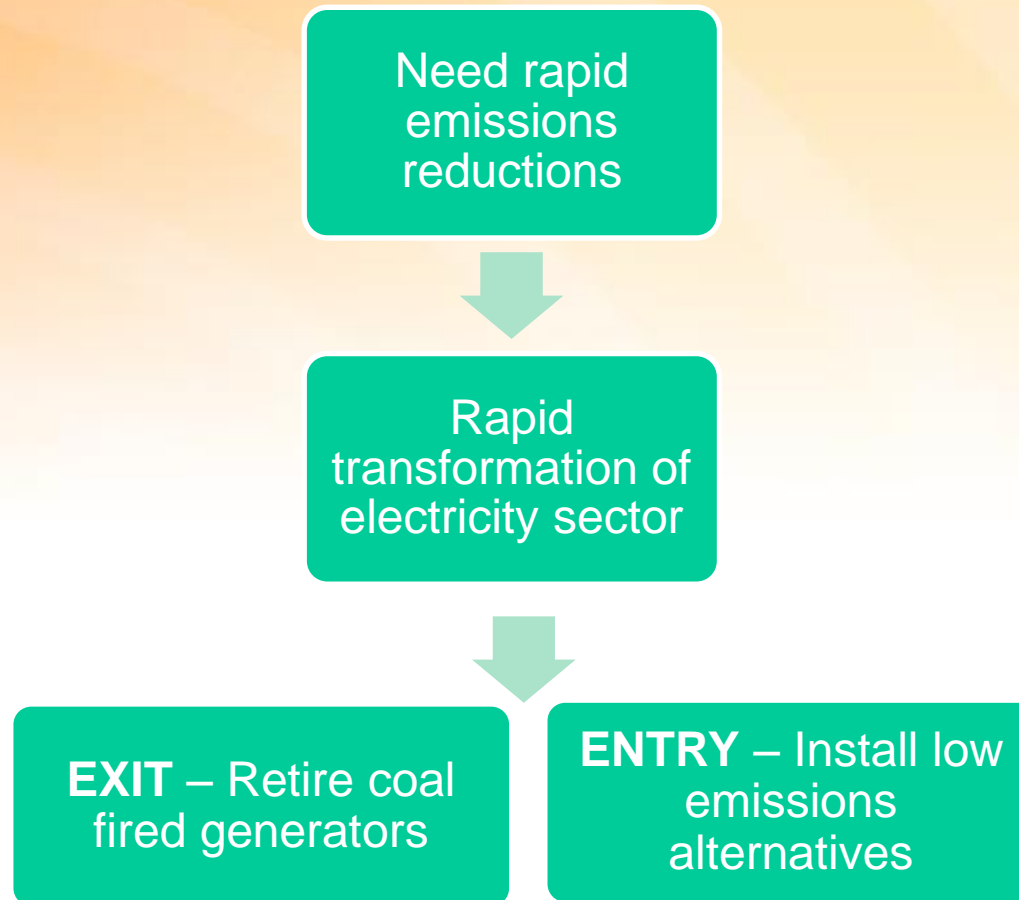
AEMC's proposed process



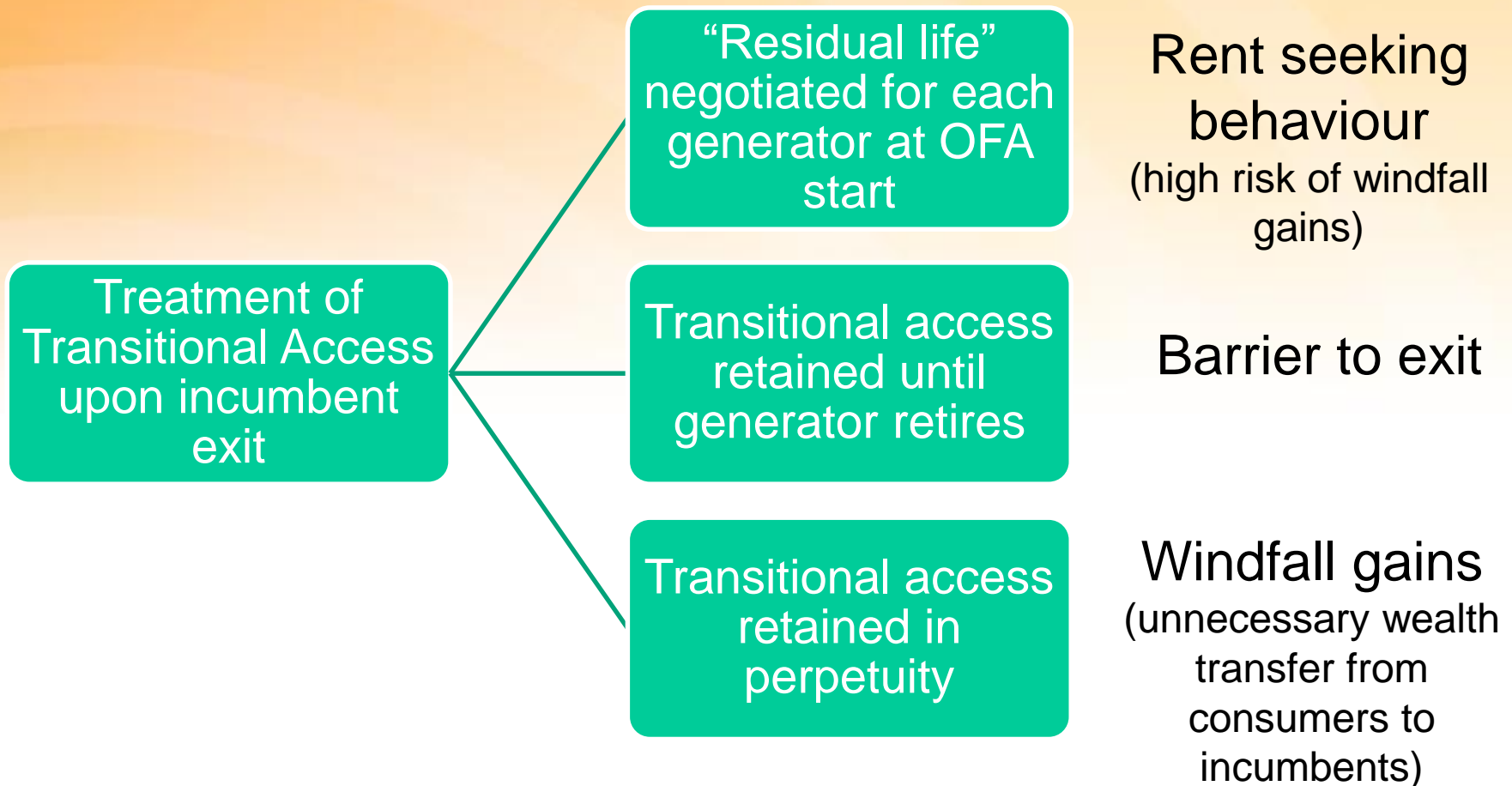


Source: Copyright Commonwealth Scientific and Industrial Research Organisation 2012-.
 Chart based on user selected assumptions and generated by CSIRO's eFuture tool,
 Electricity Simulation Model #1953. Conditions of use, see www.efuture.csiro.au (Background).

Rapid emissions reductions are required



Treatment of incumbent exit is critical



Barriers to entry

Market rules introduce a clear competitive disadvantage for new entrants

New Entrants

- **Purchase access**
 - Pay incremental cost to upgrade network

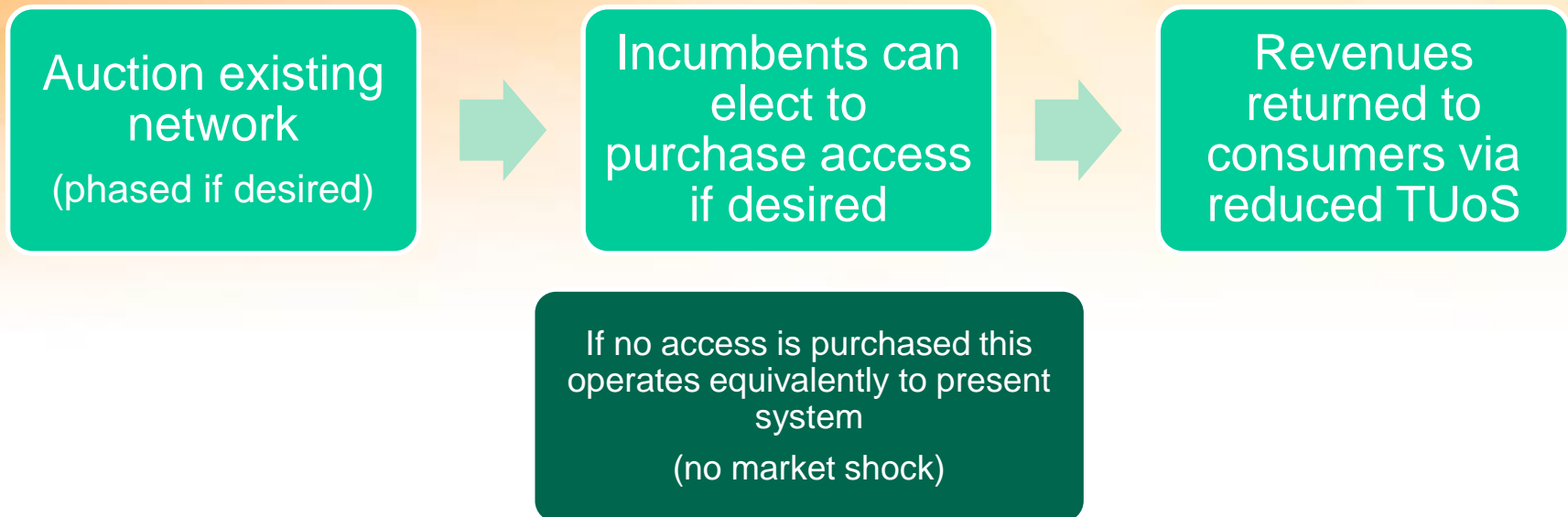
OR

- **Non-firm**
 - Pay compensation when constraints bind (reduced revenue)
 - Less certainty (increased difficulty supporting contracts)

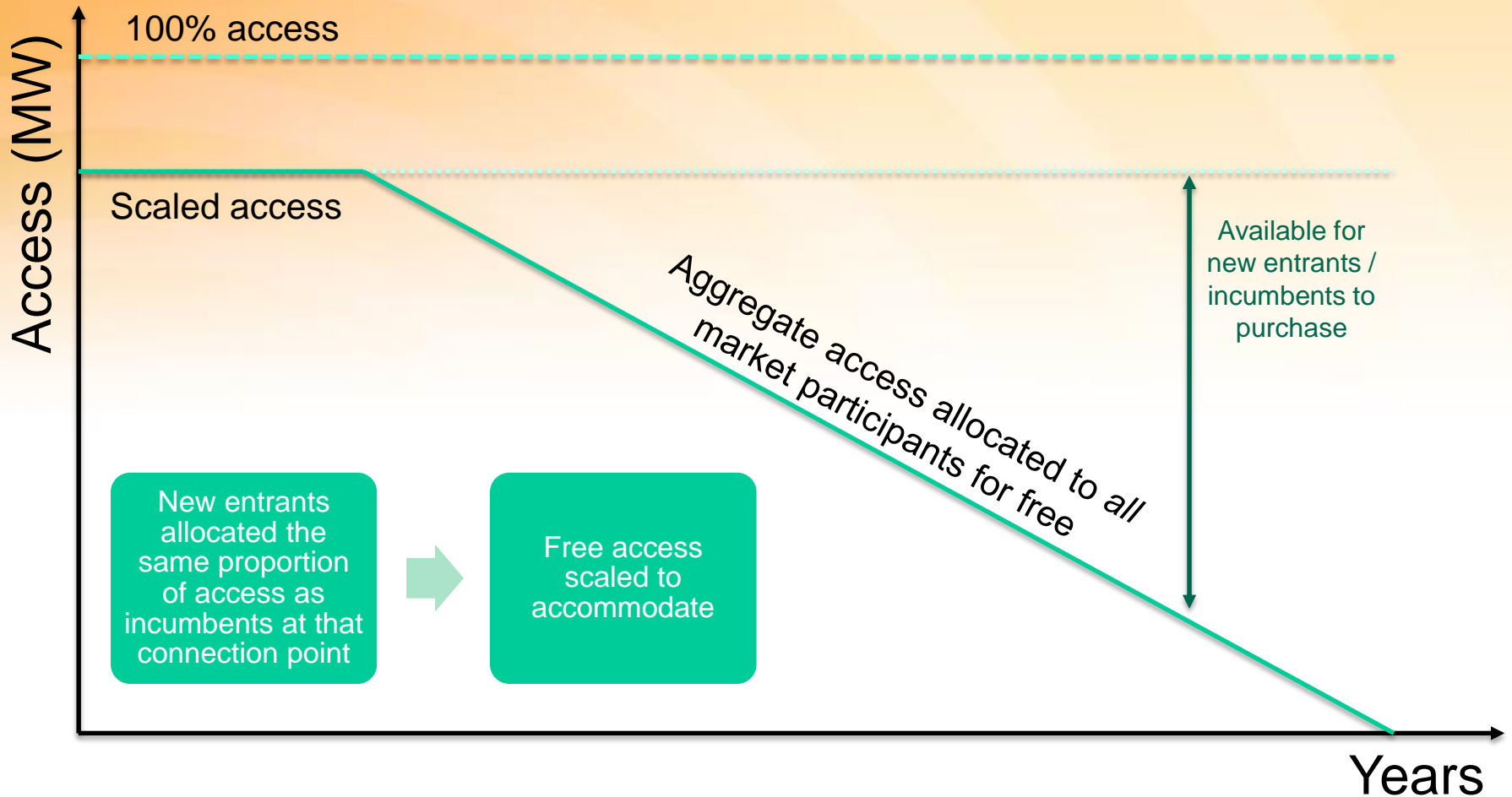
Incumbents

- Allocated access for free
- Paid compensation when constraints bind
- Increased certainty to support contracting

Alternative transition option 1



Alternative transition option 2



Conclusions

- OFA may work well in the long run...
- ...but the transition needs much more careful consideration
 - Especially in light of smoothly facilitating (rather than inhibiting) the rapid market transformation that needs to occur over this same period
 - Alternative transition processes could alleviate these issues
- Transition challenges may be substantial enough to outweigh the benefits of OFA



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Thank you

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What does OFA mean for renewables?

- Reduced profitability
 - Need to purchase firm access
- OR
- Pay compensation when constraints bind
- Decreased certainty
 - Increased challenges in obtaining PPAs and financing?
- Stronger locational signals
 - Remote renewables pay a higher price for access

Higher carbon price required to drive renewable investment

Potentially high revenue impacts

