



Centre for Energy and  
Environmental Markets

UNSW  
THE UNIVERSITY OF NEW SOUTH WALES  
SYDNEY • AUSTRALIA



## OFA Transitional Access

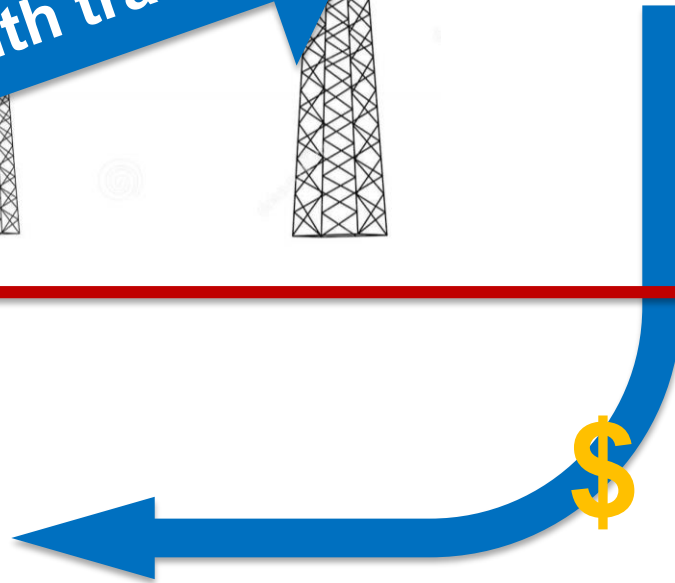
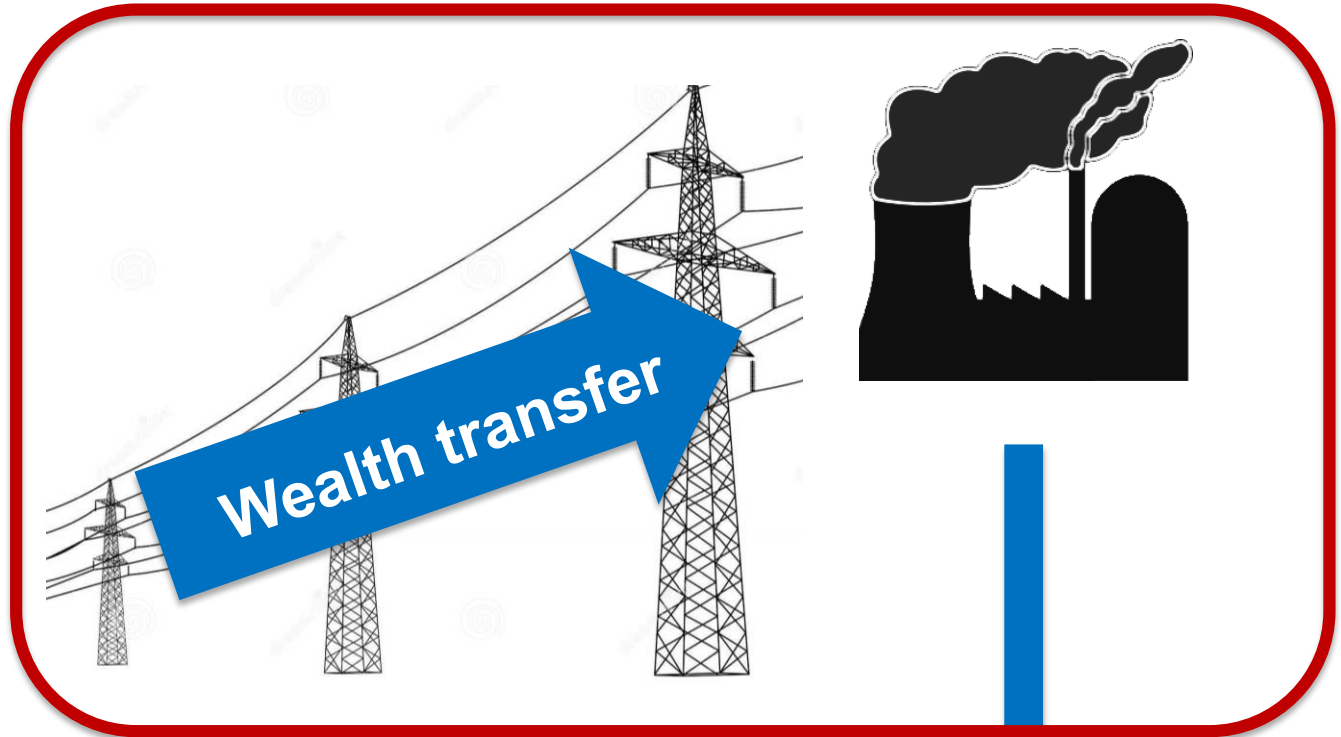
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AEMC Public Forum

Sydney – 14<sup>th</sup> August 2014

# Minimising wealth transfer

It is in consumers best interests to minimise any allocation of free access.



# Reasons to give free access

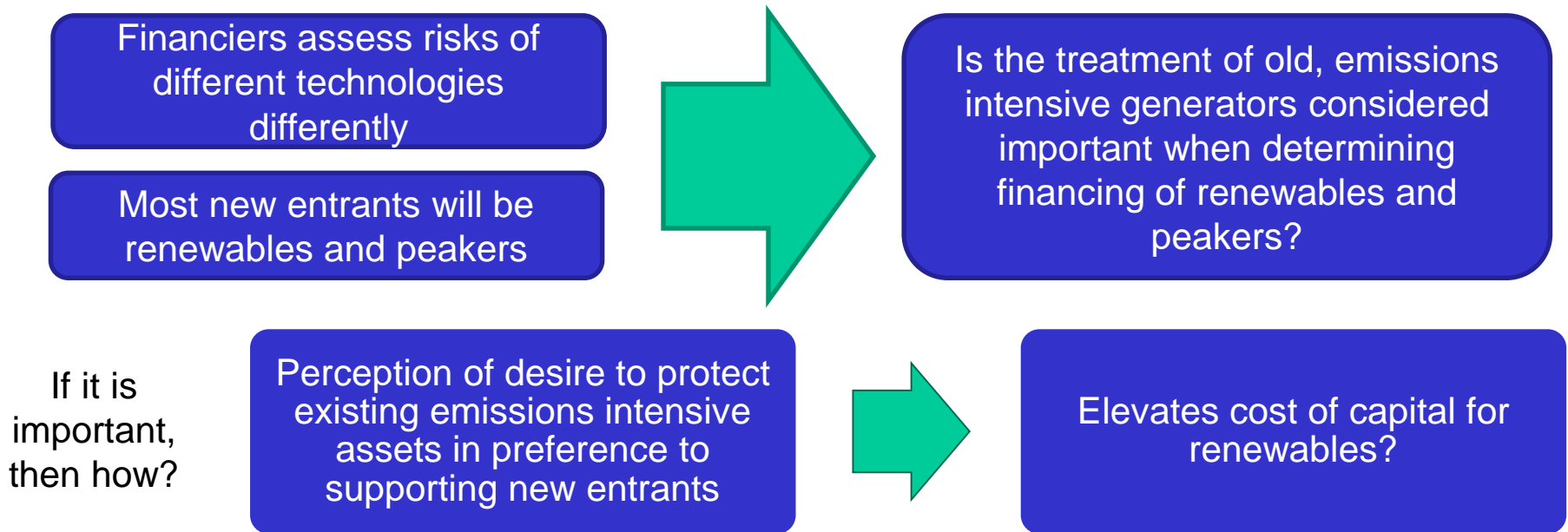
## 1. Learning period

- Justifies providing access for a very short period (2-3 years)

## 2. Minimise perceptions of regulatory risk

- Prevent inflation in the cost of capital
- BUT conventional approach may not apply at the cusp of a technology transition

# Perceptions of risk are nuanced



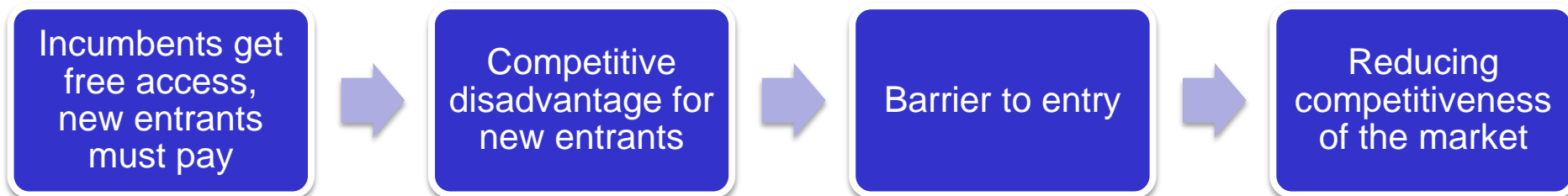
- Further analysis required
  - Understand nuances of financiers perceptions of risk
- Proposing a potentially large wealth transfer
  - For sole purpose of minimising cost of capital
- What is optimal approach to minimise cost of capital for new entrants, while minimising wealth transfer?

# Barriers to entry

American Economic Review:

**“An economic barrier to entry is a cost that must be incurred by a new entrant and that incumbents do not or have not had to incur”**

*R. Preston McAfee, Hugo M. Mialon and Michael A. Williams, “What is a Barrier to Entry”, American Economic Review, Vol. 94 No. 2 (May 2004)*



# Airline analogy...

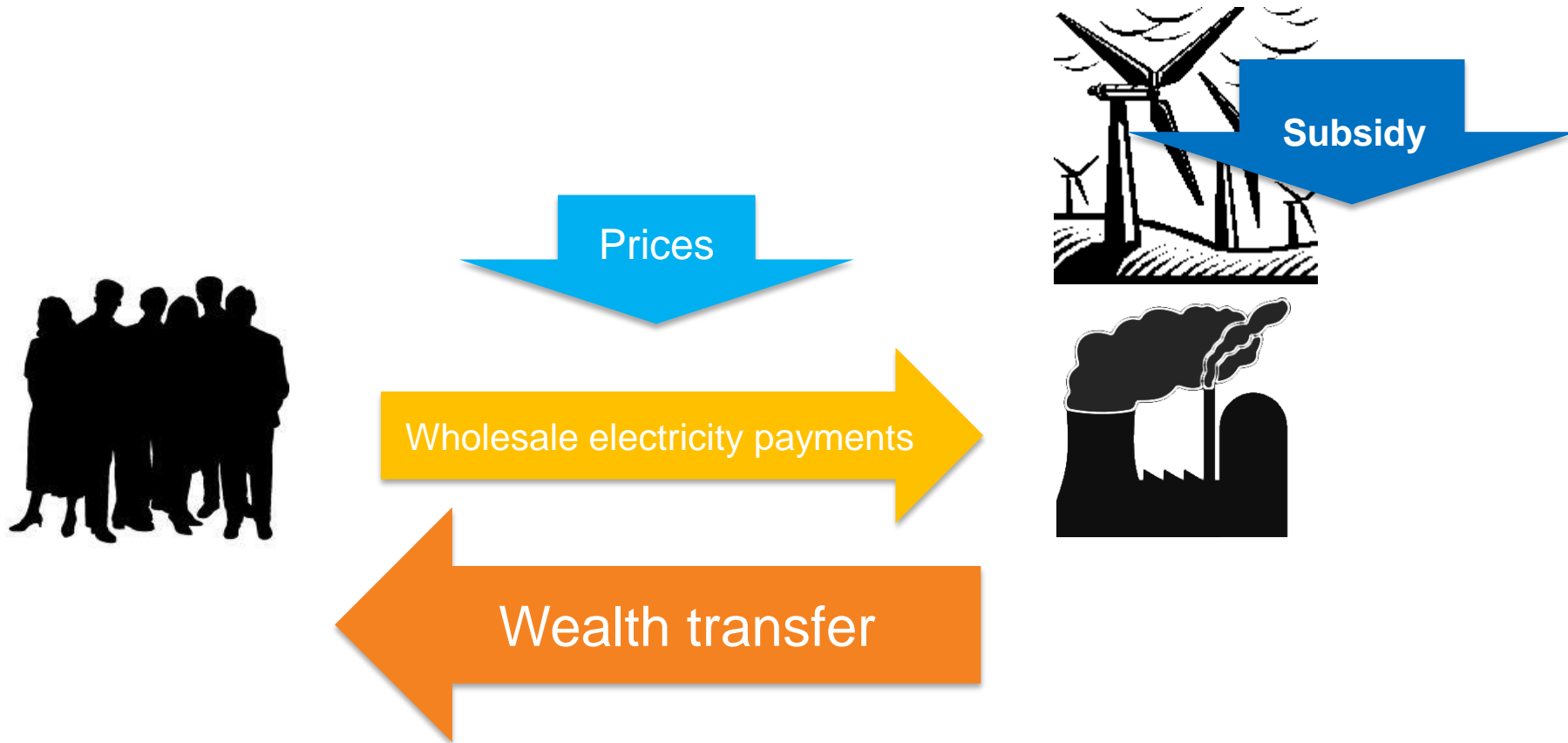


How is this in the best interests of consumers?



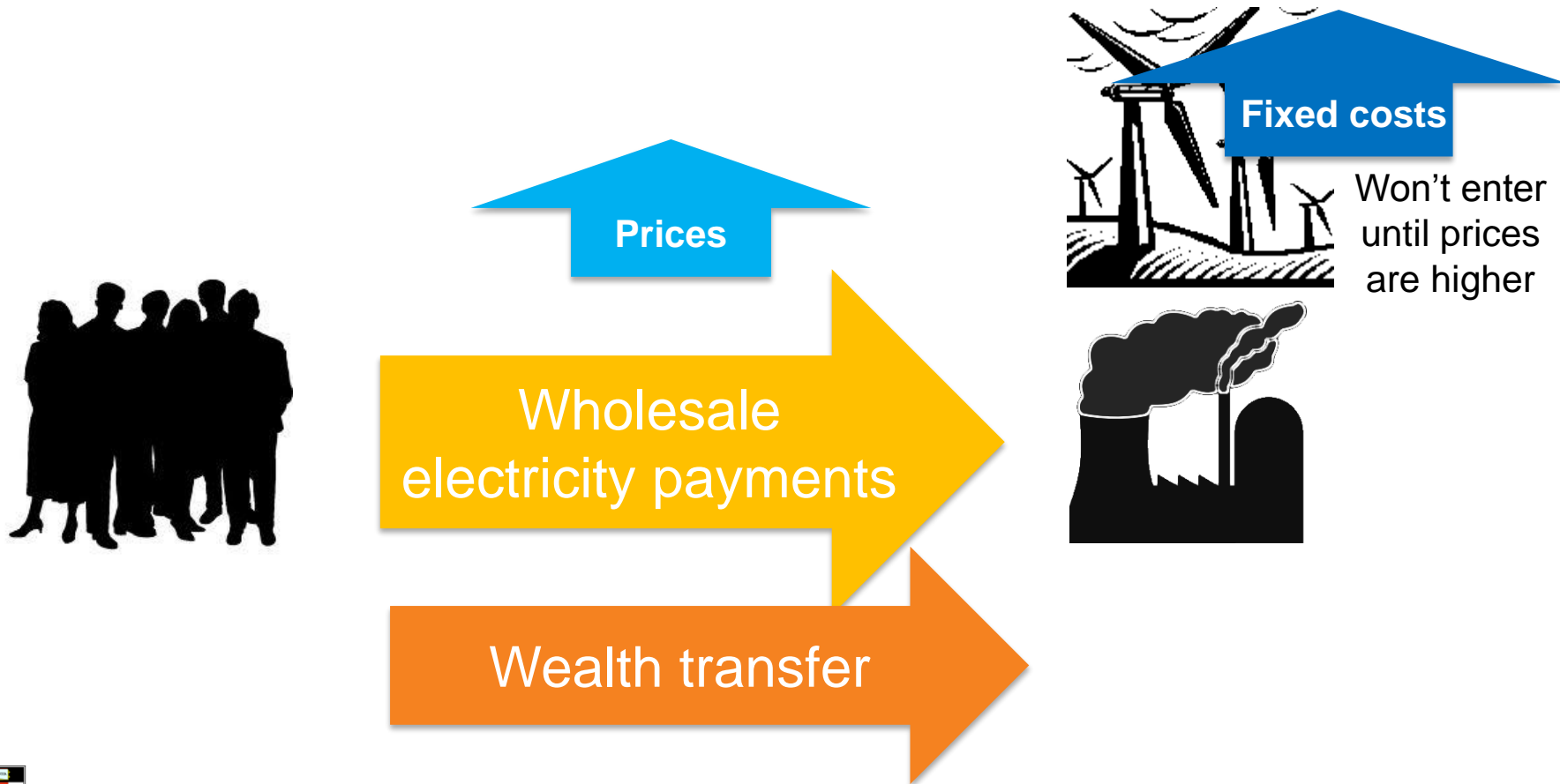
# The Merit Order Effect

- Subsidy for new entrants creates a wealth transfer from existing generators to consumers, via depressed wholesale prices



# The Reverse Merit Order Effect

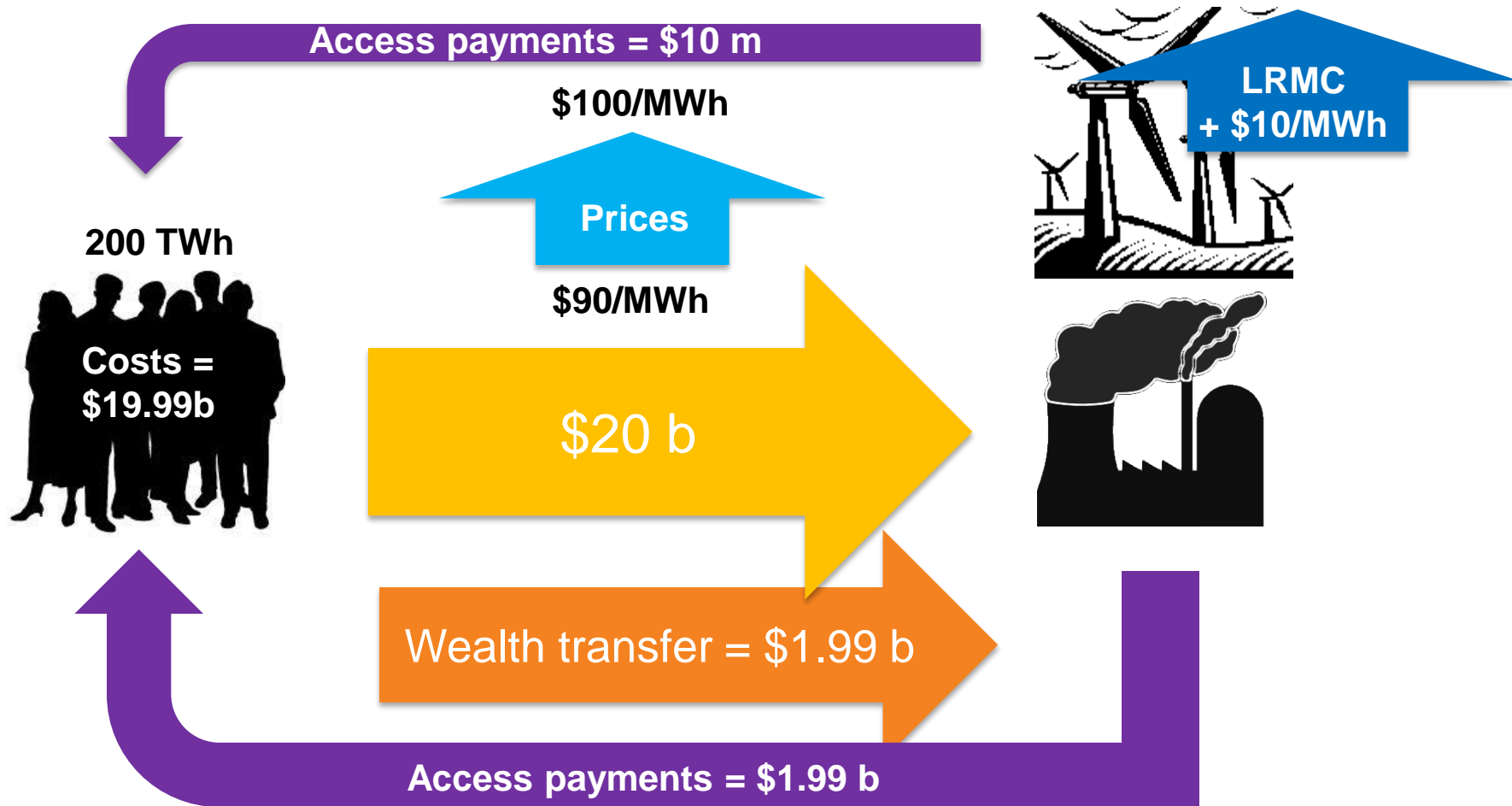
- Competitive disadvantage for new entrants creates wealth transfer from consumers to existing generators, via inflated wholesale prices





# The Reverse Merit Order Effect

- Competitive disadvantage for new entrants creates wealth transfer from consumers to existing generators, via inflated wholesale prices



# Conclusion - Further analysis required

## TNSP to quantify access pricing

- Indicative access pricing numbers to facilitate further analysis and modelling
- Trial of LRIC methodology

## Determine impacts on cost of capital

- Examine impact of different transitional access approaches
- Find the minimum total allocation, and way of allocating, that minimises cost of capital specifically for renewables and peakers

## Modelling of price and entry/exit impacts

- Explore impacts of different transitional access approaches on wholesale prices, and entry/exit decisions
- Understand competitive disadvantage issues

### Alternatives to consider:

No free access (to anyone)

Give equal access to new entrants (remove competitive disadvantage)

Give transitional access to renewables and peakers only (not to coal-fired generators)





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Thank-you

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