

4 September 2014

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Dear David

Thank you for the opportunity to respond to the Optional Firm Access: AEMO First Interim Report. We note this report is an update on AEMO's work on the functional design and modelling of access settlements as well as a consideration of the different implementation options.

AEMO analysis reveals no dispatch efficiency improvements from OFA

Stanwell agrees with the AEMO assessment that access settlement is core to the Optional Firm Access (OFA) proposal. Without access settlements, generators do not gain the benefits of firm financial access to the regional reference price during congestion, and without this, OFA has no value.

We therefore note with alarm the conclusion of your report that from the congestion events studied, access settlement would not have resulted in an improvement in dispatch efficiency. Your report explains that rebidding during recent congestion events was dominated by factors outside the scope of OFA to address.

AEMO's analysis and conclusion confirms Stanwell's opinion that the introduction of OFA will not lead to the unquantified benefits purported by the AEMC including their claim of an improvement in dispatch efficiency. We consider that AEMO's compelling analysis should be given significant weighting by the AEMC in relation to their "Go/No Go" recommendation due in November.

Stanwell supports AEMO's continued involvement in testing OFA

If the project is to continue, Stanwell requests AEMO's continued involvement in modelling and testing the AEMC's assumptions. OFA is a complex reform and only AEMO has the technical ability to take the AEMC's theoretical economic ideas and test them in a real world setting through the Dispatch Training Simulator and NEMDE Queue. By looking at the details, AEMO will expose critical design flaws and will be able to reveal the true implementation costs and benefits.

For any future modelling undertaken by AEMO, Stanwell requests further details on input assumptions including generator bidding logic, marginal cost and firm access quantities. This will enable market participants to confirm that AEMO's assumptions and modelling methods are appropriate. If any modelling results are available, these

should be reported along with a detailed analysis of the results. AEMO's 1st Interim Report does not meet these requirements, statements like "it [the model] can postulate changed incentives and model changed offer behaviours" require further explanation.

While Stanwell supports AEMO's expertise being put to work on modelling the spot market impact of OFA, we believe that AEMO should not make unsubstantiated statements about other elements of OFA. Comments such as "It is likely that other benefits would arise from access settlement that are included in the framework, such as lower hedging risks for firm generators and allocative efficiency benefits from more stable spot pricing" are areas outside of AEMO's area of expertise and AEMO's expertise is better served by providing informed comment on its spot market modelling results.

Emergent issues identified by AEMO are fundamental market design parameters

AEMO identified a number of issues with the AEMC's design including the treatment of loss factors, constraint violations, unusual settlement pricing conditions and 'five-thirty' problems. It is surprising that these fundamental design elements have not yet been identified or analysed by the AEMC.

The complexity involved in resolving these issues is further proof of the size and reach of the OFA reform. Stanwell is concerned that there are other market design parameters that must be fundamentally reconsidered due to OFA but as yet are still unidentified. We are also concerned that altering or interpreting fundamental market parameters in new ways could lead to unintended market consequences.

Additional market parameters are required by participants

AEMO is correct to assume that additional pre-dispatch forecast and real-time market information is necessary to help participants understand their access entitlement.

Determining access entitlements requires knowledge of:

- flowgate actual enablement;
- flowgate target enablement;
- generator capacity for all units affected by the flowgate;
- generator availability for all units affected by the flowgate; and
- flowgate participation factors.

Of all these factors, generators only have reliable access to generator capacity information. In order to maintain the current level of market transparency, all the other factors need to be available to the generator in real time.

Currently generators do not have sufficient information to reliably determine the flowgate actual enablement, although for some constraints this is expressed explicitly. Most constraints include terms which are opaque to market participants such as line ratings, even when binding.

Flowgate target enablement will require publication of an additional dataset in order for participants to determine their access level. Where flowgate actual enablement is above target enablement, the difference is required to inform participants on the availability of non firm access. Where flowgate actual enablement falls below target

enablement, the difference is required to inform participants of the extent of firm access scaling which is occurring.

Generator availability is currently published by generating unit in arrears and by region in advance. Under OFA, generators would require access to this information at the unit level in real time as well as in advance through pre-dispatch in order to calculate how non-firm access is allocated if it is available, or how firm access is scaled back.

Flowgate participation factors are assumed to be derived directly from the published constraint equations, however, these equations can change without notice, including at the time of dispatch. In addition, flowgate participation factors can change in response to TNSP or DNSP network changes, and current procedures do not provide market participants with an adequate understanding of either the real time or forecast effect of these changes on participation factors. Such changes could have a significant effect on how much firm access a generator has to the regional reference price, creating hedging risk for firm generators.

No cancellation of existing Settlement Residue Auction (SRA) units

We did not find any conclusion in the report on the retirement of SRA units. Stanwell does not support the cancellation of SRA units which have already been bought by participants. Participants buy SRA units for hedging and speculative purposes and cancelling these units may have adverse financial consequences. In addition, Stanwell does not support a reduction in the length of the forward contracting period (currently 3 years) in the possible expectation of the introduction of OFA (i.e. before an OFA Rule Change process is complete).

The cost of AEMO's involvement in OFA must be disclosed

AEMO's involvement in OFA so far has included participation in AEMC Working Group meetings, liaising with the AEMC on design ideas, modelling assess settlements and hosting industry discussions. As AEMO is funded by participants, the financial cost of this considerable volume of work must be disclosed.

In addition, Stanwell supports detailed cost analysis of each of the elements in Section 2.3.1 "AEMO implementation costs" in the 1st Interim Report.

Thank you for your consideration of Stanwell's response to the 1st Interim Report. If you would like to discuss any aspect of this submission, please contact Luke Van Boeckel, Manager Regulatory Strategy on 07 3228 4529.

Yours sincerely



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