

The regulatory investment framework for transmission in Australia

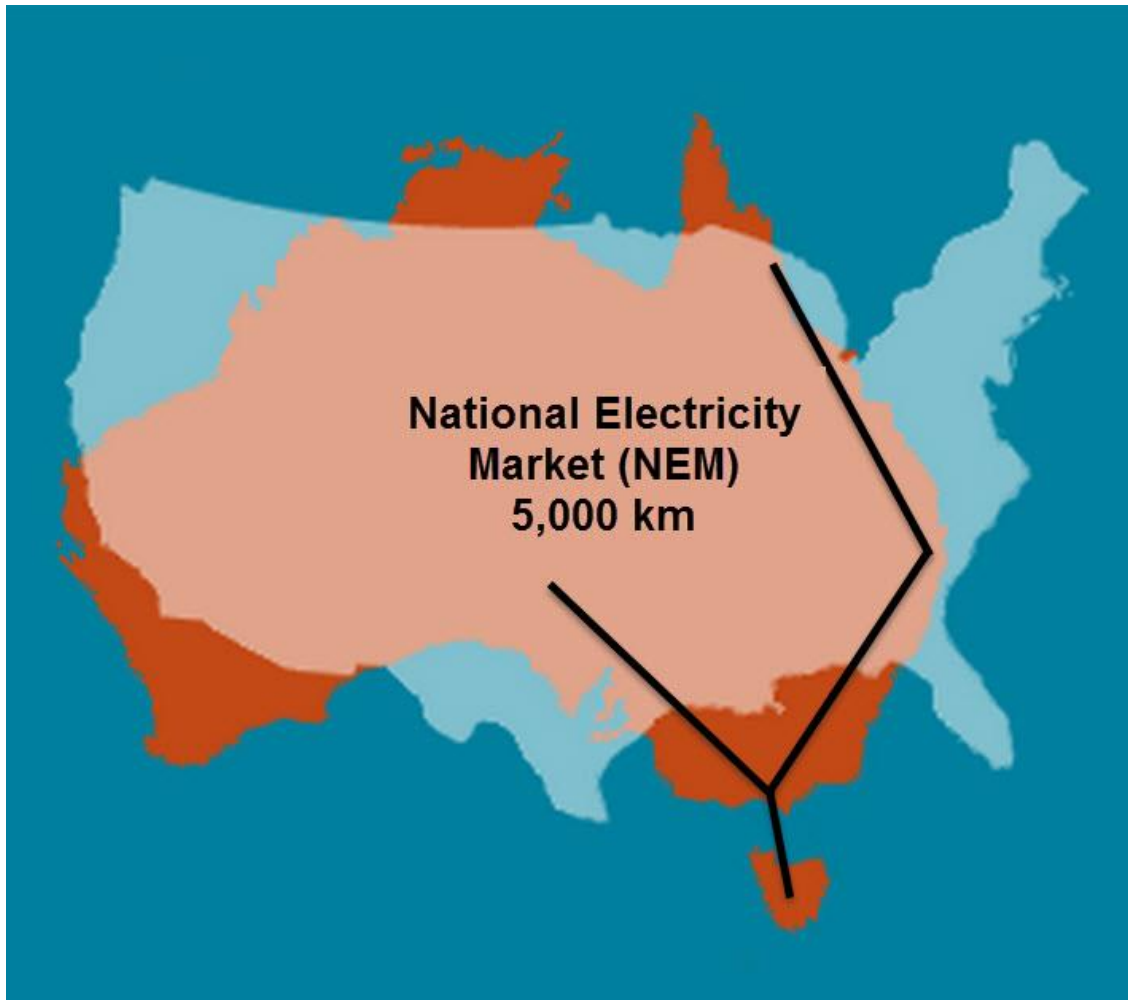
IEA Workshop V: Regional resource adequacy



Thursday 15 January 2015

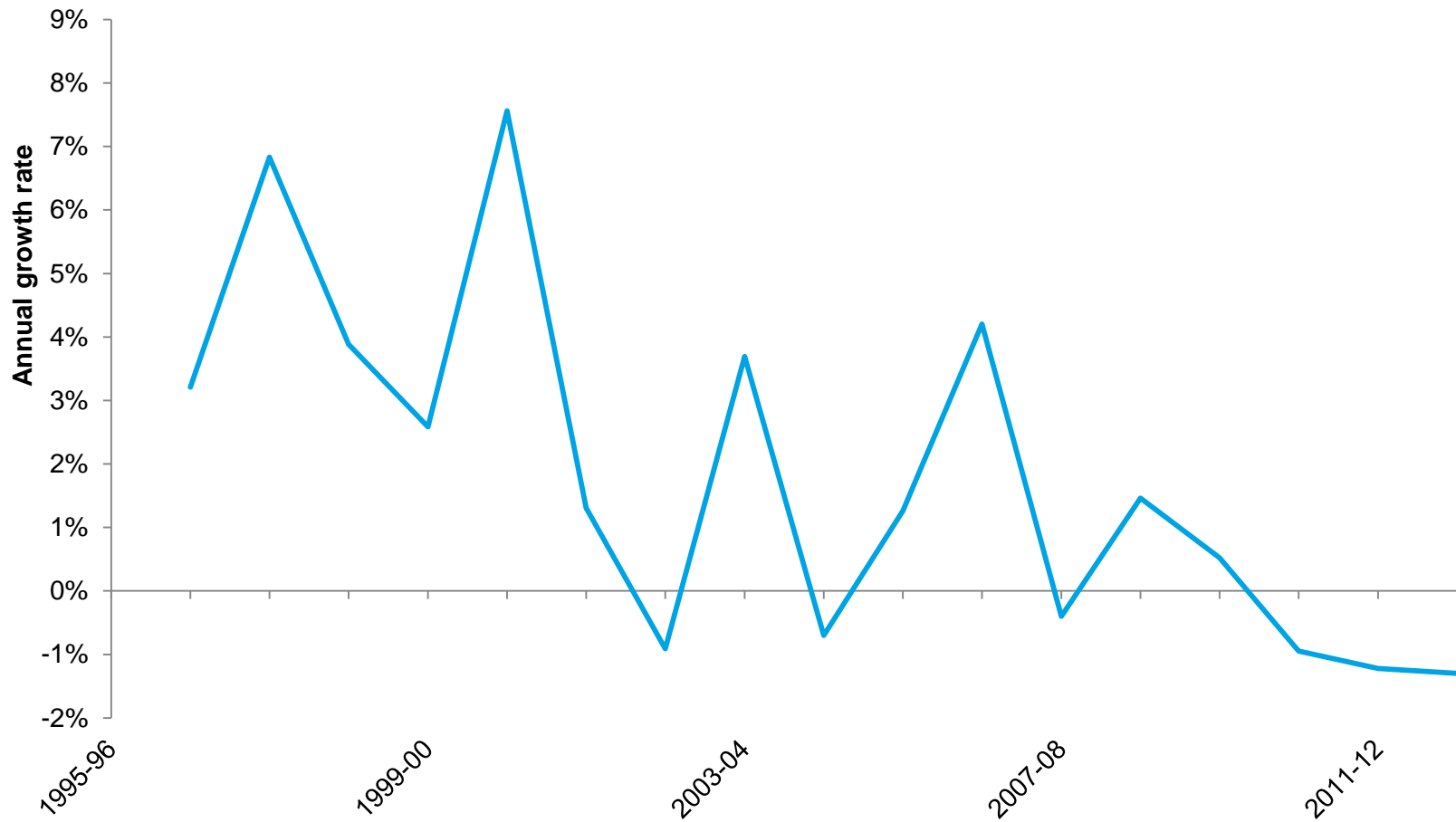
Paul Smith, Chief Executive, Australian Energy Market Commission

Australia's National Electricity Market (NEM)



- Spans 5,000 km and includes 40,000 km of transmission cables
- Supplies about 200 TWh of energy
- Supports 19 million residents
- Can be costly to upgrade because of distances

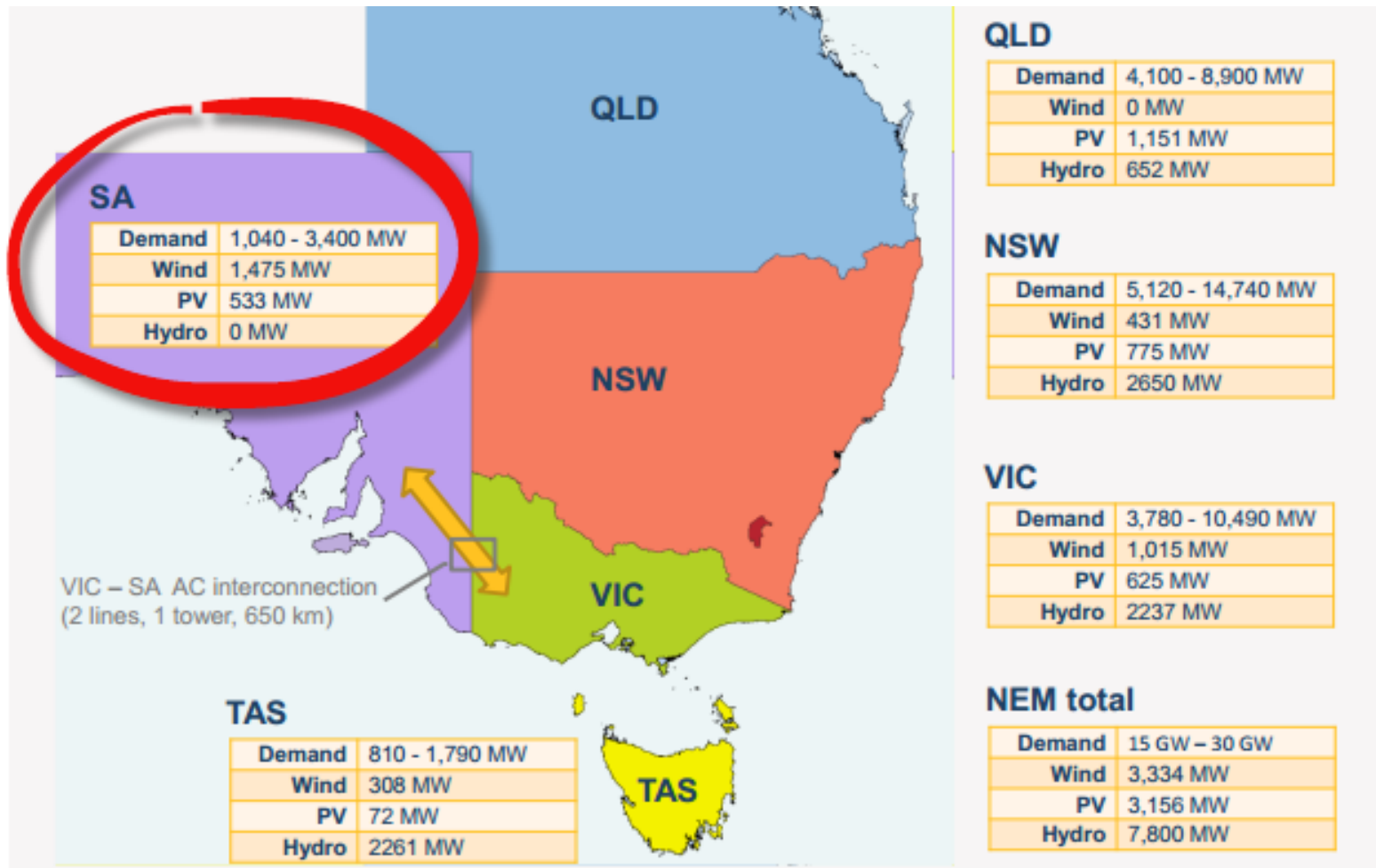
Demand growth driving network investment



Regulatory framework for investment

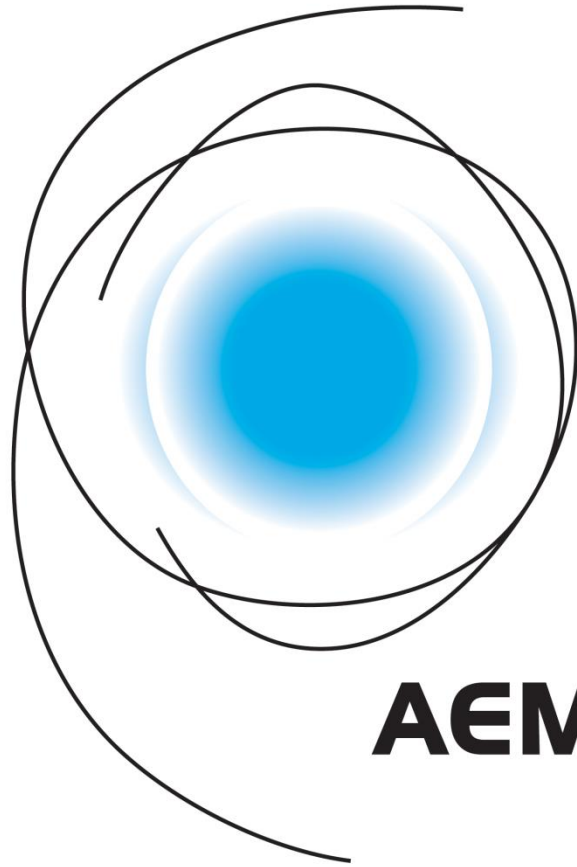
- Regulatory investment test for transmission (RIT-T)
 - Cost-benefit analysis of individual proposals for transmission augmentation
- Incentive based regulatory framework
 - Ex-ante incentive-based regulation (enhanced in 2012)
 - Determines maximum revenue network businesses may recover from consumers over a five year regulatory period.
- Future regulatory reform
 - Optional Firm Access model currently under consideration

Climate of change



Future reforms: Optional Firm Access

- Optional firm access allows generators, if they choose, to pay to manage the financial effects of network congestion.
- Generators would trade off the cost of transmission (in the form of a firm access charge) against the cost of congestion (which they would avoid by being firm).
- Creates locational signals that account for congestion costs against network expansion costs.
- Moves some part of the management of uncertainty relating to future network development from regulated transmission businesses to the competitive generation sector



AEMC