

21<sup>st</sup> September 2018

Mr Ashwin Raj  
Manager, Energy Networks  
Public Utilities Office  
Department of Treasury  
Locked Bag 11  
CLOISTERS SQUARE WA 6850

Submitted via e-mail to: [PUOSubmissions@treasury.wa.gov.au](mailto:PUOSubmissions@treasury.wa.gov.au)

Dear Mr Raj,

### **Proposed Approach to Implement Constrained Network Access**

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission to the Public Utilities Office’s (“**PUO’s**”) *Improving Access to the Western Power Network – Proposed Approach to Implement Constrained Network Access Consultation Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over ten million homes and businesses.

#### **Introduction**

As part of the Minister for Energy’s suite of electricity sector reform initiatives, the PUO has conducted market modelling of three possible network access models, with the result that, overall, the most efficient solution is fully constrained access. However there are transitional issues with changing generator access rights, and the PUO has proposed generators surrender their existing unconstrained access rights in combination with some transitional arrangements.

The Energy Council thanks the PUO for the information provided in the consultation paper, in particular the underlying justification and timeline for implementation. The material makes the case for this reform, and the Energy Council supports the broad direction, subject to reasonable and appropriate transitional arrangements and timeframes.

#### **Discussion**

##### Modelling

The Energy Council supports the broad objective the PUO has taken in respect of this modelling. In particular by identifying the total resource cost benefits, the customer benefits, and the losses imposed on generators with existing firm access agreements. This suggests there is sufficient benefit to undertake the reform whilst providing reasonable compensation.

The paper provides only very limited detail about the approach, assumptions and outcomes of the modelling. The paper anticipated more publication of such details in a final report by the end of August and we trust that even if the report itself is delayed, further public information will soon emerge. The Energy Council recognises the PUO is limited in its ability to provide detail due to commercial confidentialities. This is certainly understood with respect to individual impacts, however key input assumptions should not need to be confidential.

In particular it is important that the modelling assumes all known committed development projects and closures. Some projects committed within the current temporary access arrangements are likely to add considerably to the amount of congestion post constrained access reform, so these need to be incorporated.

The PUO’s engagement with our affected members through bilateral meetings in order to share confidential information is most welcome. Whilst the Energy Council cannot be privy to those discussions, we understand

our members have raised a number of significant matters regarding the modelling assumptions, and we trust that they will be taken into account.

#### Reserve Capacity Mechanism effects

Loss of Reserve Capacity Mechanism (“RCM”) capacity due to constrained access is also a matter of concern for our members. The Energy Council understands the PUO is yet to finalise a method for rationing capacity following the reform. It would be interesting to learn whether RCM capacity rationing was incorporated in some way in the modelling, as this could be a significant loss of revenue for generators who have previously invested in firm access.

With respect to the pricing of RCM, the Energy Council recommends attempting to replicate the approach proposed in the most recent consultation paper, “Improving Reserve Capacity Pricing Signals”.

#### Transitional Assistance

The Energy Council interprets the consultation paper to suggest that the PUO is recommending transitional assistance to recognise the full impairment upon generators who presently enjoy access rights under the current regime. This is equivalent to the difference between revenues (net of short-run costs) in the constrained access runs and the business as usual case. For the avoidance of doubt, this includes:

- loss of revenue due to congestion;
- loss of RCM revenue due to rationing;
- changes in energy price due to changed entry; and
- change in RCM value due to changed entry.

On this understanding, the Energy Council supports the approach recommended.

The Energy Council would be pleased to participate in the further industry consultations, but notes that the detailed negotiations are necessarily bilateral, confidential and require good faith on both sides. We believe that this is achievable.

In order to assist the planning of retailing activities, it would be worthwhile providing more information on the recommended cost recovery mechanism and the likely cash quantity for customer classes. Importantly, the amount needs to be recognised in any regulated retail tariffs.

In our previous submission, the Energy Council suggested that affected generators should have the option of a market mechanism to provide ongoing financial firm access in lieu of some or all compensation. We note the consultation paper has removed this option. The Energy Council considers that it should not be difficult to provide within the systems changes being built to incorporate constrained access, indeed the necessary congestion information to operate firm financial access settlement is a natural product of the constrained dispatch process. This option could be kept alive for the time being, and, if any affected generators express interest, the concept should be further developed. Whilst the Energy Council considers it is highly likely to be feasible, if however it proves difficult to implement, at that time assistance could revert to the full compensation approach.

#### Timeline

The proposed implementation date of October 2022 is supported, in combination with various other dispatch reforms, noting the number of challenging tasks to be completed in the meantime. It is beneficial to have such a target for the industry and to get a formal project management approach underway. This should also include contingency planning to cover eventualities, such as delays in legislative processes.

#### Immunity

The Energy Council understands the PUO’s desire to remove ongoing risk from Western Power in relation to the reform. However, as stated in our earlier submission, a broad immunity is a blunt instrument that may unintentionally affect generators’ rights in areas not directly affected by the loss of firm access. Instead the PUO could consider an approach that initially seeks to adjust connection contracts through bilateral negotiation, followed, where necessary, by some kind of dispute resolution arbitration.

#### **Conclusion**

In conclusion, the Energy Council supports the broad direction and timeframe of the reform subject to reasonable transitional arrangements. The approach of modelling the overall resource benefits and then allocating a part of these as transitional assistance to disaffected parties is supported. We also support the

process of using this modelling as a basis for confidential bilateral negotiations with affected parties. At the same time we look forward to more non-confidential modelling details being released into the public domain.

Some concerns have arisen around the modelling details, particularly the currency of its input assumptions which may justify a degree of recalculation or post-modelling adjustment. We trust that these concerns can be addressed.

The Energy Council's support for the transitional arrangement is on the understanding that it attempts to comprehensively cover impairments, including congestion on energy volumes, effects upon RCM capacity and pricing impacts on each.

Whilst a form of market-based compensation such as financially firm access is not necessarily the first choice form of assistance for all generators, it may have attractions for some, so the Energy Council believes that this option could be kept in play and developed further to gauge generator interest.

Any questions about this submission should be addressed to the writer, by e-mail to [Ben.Skinner@energycouncil.com.au](mailto:Ben.Skinner@energycouncil.com.au) or by telephone on (03) 9205 3116.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ben Skinner', with a large, sweeping flourish at the end.

**Ben Skinner**  
GM, Policy & Research  
Australian Energy Council