

3 April 2018

Public Utilities Office
Department of Treasury
Government of Western Australia

Submitted by email to PUOsubmissions@treasury.wa.gov.au

Improving access to Western Power's network

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the three consultation papers associated with improving access to the Western Power network.

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 10 million homes and businesses.

Our members will contribute individual submissions that respond in detail to the papers' questions. This submission is high-level and represents the broadly held view of those members with a Western Australian Electricity Market (WEM) focus.

Introduction

The Energy Council supports the objective, timeframe and consultative process of the constrained access reform. However it is crucial that this useful reform recognises and accounts for its impact on existing participants, so that the reputation of the WEM as a stable investment environment is maintained. In this regard, it is important for some matters in contractual renegotiation and the capacity credit priority timeframes to be strengthened.

Whilst the Office's objectives for the reform are generally supported, there may also be opportunities for simpler implementations in some areas.

Discussion

Context and Timeframe

The Energy Council supports improving access for new generation into the WEM and recognises the need for this reform. The original arrangements are likely to prove inefficient and a significant barrier to industry transition. The Generator Interim Access (GIA) arrangements have been a useful workaround, but are unlikely to be a realistic permanent solution.

The overall timeframe, targeting late 2022 coincident with the introduction of security-constrained economic dispatch, seems broadly appropriate. This timetable should however of course remain open to adjustment

where challenges arise. Whilst not opposing a National Electricity Market (NEM)-style dispatch approach as a vehicle for delivering the reform, the Energy Council suggests the project should also consider exploring other forms of dispatch congestion management that involve a smaller change from the existing arrangements.

Recognition of existing access rights and transitional assistance is an essential component of the reform. We support the Office's consultative process and suggest there should be further stages of consultation as the details develop, particularly in relation to security constrained dispatch and the new ancillary services markets. In addition, there are external factors, such as national emissions reduction goals which the Public Utilities Office may need to consider in its drafting of the proposed changes.

Contractual Provisions

The Office is presently considering a legislative extinguishment of existing rights. Whilst this is expedient, it runs the risk of unintentional outcomes, such as affecting bespoke contractual matters that could remain in place after the reform. The Energy Council would prefer that individual bilateral negotiations are explored first. It may be possible to provide a block of time to enable parties to undertake good faith negotiations towards accommodating the reform, followed if necessary by an independent arbitration process.

Transitional Assistance

The Energy Council is pleased at the recognition of this matter in page 11 of Paper 1(b),

“It is foreseeable that the modification of contractual commitments may lead to adverse consequences for some incumbent generators that have made investments on the basis of the existing policy and regulatory framework.”

It is imperative that any impairment caused by the reform is appropriately managed in order to maintain the WEM's reputation as a market that is able to reform whilst providing fair investment protection. This is also a key question in any time limitation to assistance.

The Energy Council broadly agrees with the paper's approach for estimating losses. We agree with assessing the costs of congestion, being the loss of wholesale market revenue and income from the sale of large generation certificates (LGCs). We however caution against assessing, through ex-ante modelling, changed revenues due to price increases postulated to result from the reform. These are highly sensitive to modelling assumptions, and a small change in an assumption may swamp the effects of the underlying congestion that is being assessed.

If a market solution is chosen to recover these losses then it may be appropriate to recover congestion costs from the new causers of the congestion as it occurs, in a similar manner to the application of financial transmission rights as used in some electricity markets, or the Optional Firm Access proposal developed for the NEM.

Furthermore, when setting up the modelling exercise, as a means of calibrating the model, it is recommended that outputs be compared against historical actual data.

With respect to capital contributions, as these relate to physical network assets, it should be possible to use the network asset valuation techniques used in network regulation to identify a fair value for these, possibly with the expert assistance of the Economic Regulation Authority. If the government chooses not to provide external funding, then it would be appropriate to fund this in the same manner as shared network assets. This can be justified on the basis that if the market had always operated with a NEM-style open access regime, then assuming these assets were efficient, they would likely have been justified through standard Regulatory Investment Test (RIT-T) type processes and funded through regulated network user charges.

Capacity Credits

The Energy Council supports the “first come first served” prioritisation approach which should provide both more certainty for existing generators plus an efficient locational incentive for new generators. Ideally,

prioritisation should be available for the life of an investment, and any concerns about creating an inefficient barrier to exit resolved through tradeability.

If however a different time limitation is selected, the Energy Council understands the trade-offs, and considers ten years to be the absolute minimum of an acceptable range. The Energy Council notes that for consistency with the calculation of the Benchmark Reserve Capacity price, fifteen years would be the necessary timeframe.

With respect to “use it or lose it” provisions, these could create an unintended incentive to keep surplus plant continuously in service every year. To avoid this, priority should not be lost unless the plant is de-registered or does not provide capacity for several years.

The Energy Council recommends research into voluntary tradeability of a priority position. If workable, this could support incentives for efficient entry and exit and avoid the need for these “use it or lose it” provisions.

The Energy Council further recommends that priority be interpreted as granting first and full access to existing network capacity, and having non-priority parties allocated access from the residual component. This should avoid having to mandatorily transfer any access with compensation.

The papers discuss application of the priorities in a “tie breaking” context. In the NEM, this concept only applies to radial constraints, i.e. where the participation factor of each affected generator is equal. However most transmission networks, including the SWIS, include loops, where participation factors in constraint equations are not equal. For the avoidance of doubt, the prioritisation should also apply to looped constraints and the first come first served priority should lead any participation factor priority.

Other Reforms

The Energy Council accepts that the introduction of constrained access necessitates some form of security constrained economic dispatch which in turn necessitates a degree of facility bidding. It should be noted that:

- This will have significant effects on the interpretation of market power controls, particularly with respect to unit-commitment.
- All non-energy services provided by generating units must be valued and compensated through ancillary markets. Note that in the NEM region of South Australia, failure to value some of these services has resulted in Market Operator interventions to maintain a secure system.

It is appropriate that at this stage during the project that these changes be planned for introduction concurrent with constrained access, although this position should remain open to further discussion regarding whether staggering some introductions is beneficial.

Demand-side

The Energy Council agrees that if demand-side location is mostly unknown to the market operator, then there is no choice but to provide unconstrained access. However this will consolidate inconsistency of demand-side treatment with supply, and will undervalue demand-side located downstream of congestion and vice-versa. The Office should look to resolving this matter, for example through obliging that demand-side participates in locational scheduling.

Conclusion

The Energy Council broadly supports the constrained access reform, including its related dispatch arrangement changes and proposed timeframe. However some matters related to recognising and negotiating existing rights need to be strengthened from those proposed in the consultation papers. Whilst using a NEM-style fully security constrained dispatch process is a possible form of implementation of constrained access, the timeframe permits exploration of less substantive changes to current WEM arrangements.

Proposed changes also need to be considered in the context of other changes proposed in the PUO's *Final Report: Design Recommendations for Wholesale Energy and Ancillary Service Market Reforms* dated July 2016.

Any questions about our submission should be addressed to me by email to 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

General Manager, Policy & Research
Australian Energy Council