power to you

18 Brodie Hall Drive
Technology Park
Bentley WA 6102
PO Box 1066 Bentley DC WA 6983
Telephone (08) 6310 1000
Facsimile (08) 6310 1010
www.horizonpower.com.au

HORIZON POWER

12 November 2014

Dr Mike Nahan MLA
Hon Minister for Energy
Level 13 Dumas House
2 Havelock Street, West Perth WA

Dear Minister

Application for coverage of Alinta's East Pilbara Network

The Regional Power Corporation submits the attached application under section 3.8 of the *Electricity Networks Access Code 2004* for a decision that the transmission assets of the Alinta Energy Group described in the attached application be covered.

Yours faithfully

Frank Tudor
Managing Director

APPLICATION FOR COVERAGE OF ALINTA'S EAST PILBARA NETWORK

Introduction

1. Regional Power Corporation (trading as **Horizon Power**) applies under section 3.8 of the *Electricity Networks Access Code 2004* (**Code**) to the Minister for Energy for a decision that the transmission assets of the Alinta Energy Group (**Alinta**) located in the East Pilbara Network (as described more fully in this application) be covered under the Code.

The Applicant

2. Horizon Power is a State Government-owned, vertically integrated energy corporation that provides electricity across regional and remote Western Australia to approximately 46,000 residential and commercial customers, including major industry. All residential customers, and the majority of commercial customers, are supplied on a subsidised basis under a tariff set by government. Major commercial customers are supplied under commercially negotiated contracts. Horizon Power is responsible for generating, procuring, distributing and retailing electricity.

3. For all correspondence in relation to this application please contact Ziggy Wilk, General Manager NWIS Business, (08) 9159 7278, email Ziggy.Wilk@horizonpower.com.au

The Application

4. Horizon Power seeks coverage of the transmission network infrastructure facilities comprising all of the transmission lines and switchyards owned by Alinta in the East Pilbara, including the network infrastructure that connect the Alinta-owned generators to the Alinta-owned switch yard, as more fully described in paragraphs 10 to 12 below (**AEP Network**). Horizon Power is not applying for coverage of the whole or any other part of the interconnected electrical system in North West Australia (**Interconnected System**).

Outcome

5. Horizon Power seeks a fair and equitable open access regime to apply to the Alinta and Horizon Power transmission networks in the East Pilbara part of the Interconnected System for the benefit of all participants (generators and loads).

6. Horizon Power already provides access to its Interconnected System transmission assets (**Horizon Power's Transmission Network**) on an open access basis, consistent with the access regime established by the Code. Coverage of the AEP Network will result in a fair and equitable open access regime covering both networks on essentially the same basis. Coverage of the AEP Network will facilitate effective competition between the various electricity suppliers in the East Pilbara region for the largest (approximately 75% by electricity sales volume) consumers of electricity in that region.

Horizon Power's open access regime

7. Horizon Power has, over a number of years, spent considerable time and effort to implement and offer such open access. In particular, Horizon Power offers, to all generators, retailers and users, open access to Horizon Power's Transmission Network as follows:

   (a) Horizon Power contracts with customers pursuant to an electricity transfer access contract that is consistent with the "model standard access contract", as that term is defined in the Code, modified as is reasonably necessary to equitably cater for the unique circumstances of the Interconnected System and Horizon Power's position;

   (b) Horizon Power offers a standard connection service, exit service and entry service; and

   (c) Horizon Power offers prices using a pricing model that has been prepared by external consultants to be consistent with the pricing methods and objectives required by the Code and which incorporates:

      (i) a depreciated optimised replacement cost asset valuation that has been prepared by external consultants to be consistent with the valuation methods specified in the Code; and

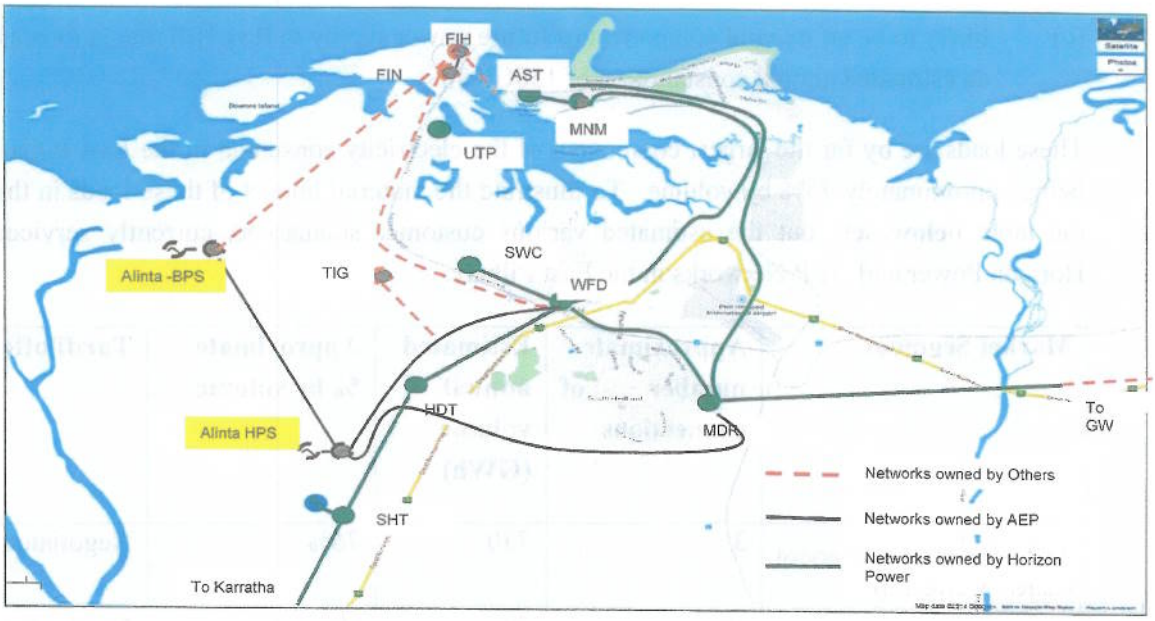
      (ii) a weighted average cost of capital that has been prepared by external consultants to be consistent with the requirements of the Code.

8. Horizon Power negotiates with all *bona fide* applicants on the basis of its open access offering outlined in paragraph 7 above. To facilitate this process, subject to appropriate confidentiality conditions, Horizon Power provides applicants with details of each element of its access proposal. For example, Horizon Power has provided this information to FMG and Alinta on this basis.

9. Horizon Power has sought access to the AEP Network on a similar open access basis to that offered by Horizon Power so that all interested parties can access the AEP Network and the Horizon Power Transmission Network on essentially the same basis. However, given recent events related to the East Pilbara and Alinta, Horizon Power considers that a mutually negotiated access regime in respect of the Pilbara transmission assets of Alinta and Horizon is no longer possible. Therefore, Horizon Power has lodged this coverage application in respect of the AEP Network. Horizon Power's intention is to procure reasonable access to the AEP Network to open up competition for itself and all other electricity suppliers that currently, or may in the future, seek to supply electricity to current and future customers connected to the AEP Network, in particular BHP Billiton Limited (**BHP**), Fortescue Metals Group Limited (**FMG**) and Roy Hill.

The AEP Network for which coverage is sought

10. Horizon Power seeks coverage of the AEP Network. The approximate location of key elements of the AEP Network is depicted in the following diagram.



11. A summary of the relevant history of the development of the AEP Network follows. The initial AEP Network was established to connect the Alinta Hedland Power Station (**Alinta HPS**) generation assets to the Horizon Power Transmission Network to facilitate a supply of power to BHP loads by wheeling through the Horizon Power Transmission Network. The contractual arrangements underpinning this transaction are still on foot, albeit with Alinta and Horizon Power as successor parties. However these contractual arrangements pre-date the introduction of the access regime established by the *Electricity Transmission Regulations 1996* and the *Electricity Distribution Regulations 1996*. Shortly following commissioning, these connections were also used to supply electricity to Horizon Power's predecessor, Western Power Corporation.

12. An onsite power station was developed by Alinta (**Alinta BPS**) to supply the BHPB Hot Briquette Iron Plant (**HBI Plant**). Alinta BPS was interconnected with the Hedland Power Station through an extension of the AEP Network. After the HBI Plant was decommissioned, BHP Billiton constructed a network asset to connect the Alinta BPS switch yard to re-inforce the supply to its Fincuane Island operations.

13. Horizon Power has developed a set of technical rules for the Interconnected System, including the AEP Network[1], which were agreed by broad technical consultation with all interested parties, including Alinta.

The markets serviced by the AEP Network

14. The AEP Network is:

    (a) an integral component of the power supply to BHPB Iron Ore Pty Ltd's operations at Finucane Island through the connection point that was historically the location of the HBI Plant that has an approximate annual consumption of 350GWh;

    (b) an integral component of the power supply to FMG's operations in Port Hedland through the Tiger substation that has an approximate annual consumption of 230GWh; and

[1] For example Alinta's consideration and agreement to derogations to the technical rules during the most recent amendment to the Access and Standby Agreement.

(c) likely to be an integral component of future power supply to Roy Hill that is forecast to have an estimated annual consumption of 150GWh.

15. These loads are by far the largest component of the electricity consumed in the East Pilbara region, being approximately 75% by volume. To illustrate the material impact of these loads in this region, the table **below** sets out the estimated various customer submarkets currently serviced by the Horizon Power and AEP Networks in the East Pilbara.

Market Segment	**Approximate number of connections**	**Estimated annual volume [2] (GWh)**	**Approximate % by volume**	**Tariff offered**
AEP Network connected (current & expected)	3	730	76%	Negotiated
Large enterprises	5	50	5%	Negotiated
Small to medium enterprises for which there is a government gazetted tariff	960	70	7%	Horizon Power - tariff set by government Non-Horizon Power suppliers - negotiated
Other non-residential customers for which there is a government gazetted tariff	15	2.5	3%	Horizon Power - tariff set by government Non-Horizon Power suppliers - negotiated
Residential (A2)	7000	110	11%	Tariff set by government

16. FMG's electrical load requirements in the Port Hedland area have grown significantly over the past few years. In March 2014, FMG completed a US $9.2 billion expansion of mine, port and rail operations to 155 million tonnes. In July 2014, FMG signed a 25 year agreement to participate in a Public Private Partnership with the government of Western Australia, Horizon Power and TransAlta under which a combined cycle gas power station will be built in South Hedland by 2017 to supply energy to FMG's port and rail operations[3]. These developments will soon trigger further investment by Horizon Power. This additional investment may be avoided or delayed if open access to the Tiger substation owned by FMG can be obtained through the AEP Network. The Tiger substation is

[2] Horizon Power does not have a complete set of data for these customers as BHP and FMG are supplied by others. Therefore, the volume has been estimated and heavily rounded .

[3] Fortescue Metals Group Limited 2014 Annual Report at [12].

currently connected to the AEP Network. FMG has an Electricity Network Access Contract with Horizon Power from 2017 onwards and, without coverage of the AEP Network, Horizon Power is likely to need to augment its part of the network to meet FMG's growth requirements resulting in a less economically efficient outcome.

17. The AEP Network traverses an area that has been identified as having a material forecast growth in the demand for electricity in the Port Hedland port development area, in particular Roy Hill.

18. While both the AEP Network and Horizon Power's Transmission Network are proximate to the Port Hedland port development, the power requirements of the new Roy Hill development will stretch Horizon Power's existing infrastructure to the extent that it will be necessary for further investment in the short term. In particular, the Roy Hill project includes a new 55 million tonne per annum iron ore mine, 344 kilometres of railway and a new port at Port Hedland[4].

19. Although Horizon Power is unaware of any power procurement arrangements having yet been entered into, Horizon Power considers that, given the size of the project, neither network alone is likely to have sufficient capacity to meet the anticipated future electricity requirements of the Roy Hill project. Rather than having Horizon Power or any other third party effectively duplicate the existing capacity of Alinta, coverage of the AEP Network would result in more efficient use of existing infrastructure, would avoid unnecessary capital expenditure and would improve security of supply for customers. It would also provide common efficient network costs for all participants wishing to compete to supply the Roy Hill electrical load.

20. There are also competitive generation service providers which are likely to seek to supply these loads, as is demonstrated by the number of existing and future generators referred to in paragraph 22 below.

Assessment against the criteria for coverage

Criteria 1 – Would access or increased access to covered services provided by means of the network promote a material increase in competition in at least one market other than the market for the covered services provided by means of the network?

21. The Australian Competition Tribunal has previously proceeded on the basis that a "material increase in competition" is a likelihood of increased competition that is not trivial[5] and on the basis that any increase in competition must be "socially-useful"[6]. The National Competition Commission has also decided that, while a trivial increase in competition would not satisfy the test, access need not *substantially* promote competition.[7]

22. The key, competitive advantage of coverage of the AEP Network is a material increase in competition for 75% of the load in the East Pilbara region, being BHP Billiton, FMG and Roy Hill. There are a range of electricity generators and retailers connected to Horizon Power's Transmission Network that are positioned to meet the requirements of these customers if they can obtain access to the AEP Network on reasonable terms, including price. For example, Horizon Power, and its

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[4] http://www.royhill.com.au/content/project; http://gateway.icn.org.au/project/3425/roy-hill-iron-ore-package-4-port-marine; http://www.thiess.com.au/news/2014/thiess-secures-roy-hill-smpei-works

[5] *Re Sydney Airports Corp Ltd (No 1)* [2000] A CompT 1 as approved by the Full Federal Court on appeal

[6] *Chime Communications Pty Ltd (No 3)* [2009] ACompT 4 (at [18]),

[7] *Re Australian Cargo Terminal Operations Pty Ltd* (1997) ATPR 70-000

processor, Western Power Corporation, has facilitated the entry into the generation supply market of the following generators, which are connected to Horizon Power's Transmission Network:

(a) Alinta, as an owner and operator of the AEP Network and generation assets connected to that network;

(b) ATCO Power Australia;

(c) TransAlta from 2018[8]; and

(d) Sub 161 Pty Ltd[9].

23. There will also be new market entrants, including in the emerging renewable energy market, particularly in and around Port Hedland. The entry and success of these smaller renewable generation projects will depend on their being able to access transmission networks on reasonable commercial terms.

24. These generators can currently obtain access to Horizon Power's Transmission Network and services made available using that network by way of the open access regime that has been implemented by Horizon Power. However, as a privately owned vertically-integrated power company in the Pilbara generation, transmission and retail markets[10], Alinta is, compared to its generation, transmission and generation competitors, uniquely placed to use its position to maintain its service these loads.

25. Further, Alinta is economically incentivised to prevent access to its AEP Network in order to ensure a commercial return on its generation and transmission assets in the Pilbara. Reasons for this include:

(a) If Alinta does not supply a significant portion of the retail electricity requirements specified in paragraphs 14 to 16 above, then there is a risk of its generation assets being economically stranded;

(b) The majority of Alinta's transmission assets are old, are likely to have been substantially depreciated and are serving multiple customers. Therefore, Alinta would have a greater ability to reduce prices to compete with a new entrant transmission asset.

26. The Horizon Power Transmission Network currently provides an open network access solution for third parties. This means that Alinta can access the Horizon Power Transmission Network. The benefit to Alinta is that it can more efficiently, and more cost effectively, provide electricity to loads on the Horizon Power Transmission Network. However, the same does not apply in relation to the AEP Network for the Horizon Power Transmission network-connected generators because Alinta

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[8] TransAlta Energy will construct, own and operate a power station which will provide a long term supply of power to the Pilbara. Horizon Power and FMG are the foundation customers of the long-term station which will produce 150 megawatts of power to the Pilbara. The TransAlta station will use much of the infrastructure already in place at the site. The Project also includes construction of a new transmission line. Construction of the additional 220 kV transmission line has begun.

[9] A new access applicant who is has various fuel and other arrangements in relation to TransAlta's Solomon power station.

[10] http://www.erawa.com.au/cproot/12641/2/Alinta%20sales%20-%20EIR%20Licence%20Application.pdf; http://www.erawa.com.au/cproot/12245/2/Application%20for%20Electricity%20Integrated%20Regional%20Licence%20-%203%20April%202014%20-%20Alinta%20DEWAP%20Pty%20Ltd.PDF; http://www.erawa.com.au/cproot/11515/2/20130724%20D109193%20-%20licence%20application%20-%20Alinta%20Energy%20Transmission%20(Roy%20Hill)%20Pty%20Ltd.PDF

does not offer open network access. If this application is granted, it would enable the open network access solution to extend to the AEP Network, particularly in Port Hedland, which would improve competitive outcomes for major customers and generators.

27. The timing of coverage is important because Horizon Power is aware of the following specific examples in which access, or increased access, would promote a material increase in competition for the supply of electricity. The AEP Network is integral to power supply to BHP and FMG iron ore operations, being the two largest operations in the Port Hedland area, and to supply to the Port Hedland port development, particularly Roy Hill. Electricity supply to these large loads is typically effected through long term (5 to 20 years) power procurement agreements.

28. Open access to the AEP Network will increase competition for those operations as follows.

    (a) The BHPB Iron Ore Pty Ltd load referred to in paragraph 14(a) is currently being supplied by Alinta generation units constructed in the mid 1990s. This plant typically has an economic life of 20 to 25 years. This would suggest that BHPB Iron Ore Pty Ltd is likely to procure electricity supply to meet the future requirements of its operations in Port Hedland in the next five years. Open access to the AEP Network, on an equivalent basis to that applied by Horizon Power for Horizon Power's Transmission network, would support increased competition in the BHPB Iron Ore Pty Ltd electrical power procurement process by removing the consideration of network ownership from the requirement to maintain existing levels of supply. Any electrical power procurement process is expected to involve a material quantity of electricity.

    (b) The electrical load requirements of the port operations at Port Hedland are expected to trigger investment in the Horizon Power part of the Interconnected Network, particularly if Horizon Power is the only open access transmission network provider to the Port Hedland port area. Open Access to the AEP Network, on an equivalent basis to that applied by Horizon Power for its Transmission Network, would support increased competition in the Port Hedland port area developments and may reduce the scope of additional investments required to meet the growth requirements.

29. Open access is a precursor to an efficient electricity market. Third party access to the AEP Network on reasonable terms, when combined with the existing Horizon Power open access offering to its Transmission Network, would:

    (a) remove the barriers to entry and facilitate the entry of other generators and electricity suppliers in a material way. Barriers to entry include:

        (i) strategic barriers to entry created by the expected or actual monopolistic behaviour of Alinta as a result of there being no economic incentive for Alinta to provide access, making access negotiations difficult, time consuming and frustrating; and

        (ii) absolute cost advantages enjoyed by Alinta over a new entrant or incumbent duplicating all or part of the AEP Network, arising from Alinta's substantial market power through sunk costs and vertical integration,

    (b) result in a socially useful, material increase in competition in the generation and retail supply of electricity which in turn would mean:

(i) more efficient use of generation assets, moving away from dedicated loads to a more sophisticated market;

(ii) increased productivity in sectors that depend on a competitive and secure supply of electricity; and

(iii) cheaper electricity prices for consumers.

Criteria 2 – Would it be uneconomic for anyone to develop another network to provide the covered services provided by means of the network?

30. For this criterion to be satisfied, a third party (including Horizon Power) must not be able to profitably build its own AEP Network to get the network services it seeks.

31. The scope of this criterion, ie whether building a competing AEP Network would be unprofitable, was considered by the High Court in its 2012 decision in the Pilbara rail case brought by FMG against Rio and BHP. The High Court considered an equivalent provision in the generic third party access regime in Part IIIA of the *Competition and Consumer Act 2010* (**CCA**) and held that:

> *"It would not be economical, in the sense of profitable, for someone to develop another facility ... unless that person could reasonably expect to obtain a sufficient return on the capital that would be employed in developing that facility...What is a sufficient rate of return will necessarily vary according to the nature of the facility and the industry concerned. And if there is a person who could develop the alternative facility as part of a larger project, it would be necessary to consider the whole project in deciding whether the development of the alternative facility, as part of that larger project, would provide a sufficient rate of return."*

32. In considering the possibility of profitably duplicating the assets owned by Alinta in the East Pilbara the function of the AEP Network must be considered. The function of the AEP Network is to transport electricity from a particular generator (in this case Alinta's) or network interconnection point (Horizon Power) to a load.

33. Larger electricity transmission networks are likely to have the additional functions of:

(a) avoiding the requirement to construct redundant generation for each load by pooling the redundancy requirements; and

(b) improving the efficiency of dispatch of generation by aggregating loads and sharing spinning (operational) reserve to increase the average loading on the operational generation.

34. However, these wider benefits require supporting electricity market structures or centralised ownership. Neither of these exist in the East Pilbara.

35. There are a range of possible investors in an alternative to all or part of the AEP Network, which include:

(a) an existing generator who builds a transmission line directly to an existing load, bypassing the AEP Network;

(b) a wholesale purchaser building network that duplicates the AEP Network from the Horizon Power interconnection points to an existing load, bypassing the AEP network;

(c) a vertically integrated provider investing in a new generator and new network that duplicates the AEP Network and a contracted load; and

(d) an independent investor in transmission who builds a new transmission network which duplicates the AEP Network to provide network transport services to any of a-c above.

36. None of the above scenarios are likely to be profitable for the reasons set out below.

37. In considering the profitability of constructing a network to transport electricity from a generator or supply point to a load, the value of the electricity that enters the network and the value of the electricity that exits the network must be considered. These values are referred to as the generation cost and the electrical sale price respectively. These prices effectively set a cap on the network charges or return that can be levied or generated for the delivery service between the entrance and exit points. That is, the value added by the network service is the difference between the price of electricity when it enters the network and the price paid for electricity delivered at the exit point. A competing network provider must be able to generate a margin between the generation cost and the electricity sale price to make the investment in another network profitable.

38. The electrical sale price is a function of generation cost, plus network costs, plus retail costs, plus profit. The Alinta generation costs are set on the basis of open cycle gas turbine technology that can be made closed cycle gas turbines if this is made more cost effective by the fuel price. Alinta purchases gas from the domestic gas market. It is important to note that these generation cost positions are common to all competitive generators in the Pilbara. That is, the same generation technologies are available to all generators currently operating in the Pilbara and there is a single fuel (gas) market.

39. The Alinta network costs are likely to be based on a commercial return to it, which return is determined on a written down asset that is used to provide power to multiple parties (BHP, FMG and Horizon Power). The retail costs are a minor fixed proportion of the electricity sales (less than 3%). Therefore, Alinta is able to price its transmission services just below the cost of its next best competitor.

40. In these circumstances, any network investor wishing to compete with Alinta:

(a) is likely to have a generation cost base that is the same as that of Alinta; and

(b) must be able to provide the network services at a cost that enables electricity sale prices at or below the price currently set by Alinta.

41. However, the competing network investor must pay the full replacement (new) capital costs of constructing the new duplicate asset to provide services most likely only to one customer. The likely limitation of one customer is the result of the typical duration of electricity sale agreements of between 5 and 20 years that expire at different times, resulting in no, or very limited, opportunity to aggregate more than one customer on a network at a given time.

42. This higher capital cost and lower volume will result in a lower return than the commercial return that Alinta is able to derive from the written down value of its transmission network supplying multiple customers. In these circumstances, without coverage of the AEP Network, as a vertically integrated market participant, Alinta has the ability (and the incentive) to price its transmission costs just below the price at which it would be profitable for a competing network provider to provide the service.

Criteria 3 – Would access (or increased access) to the covered services provided by means of the network not be contrary to the public interest?

43. For this criterion to be satisfied, access (or increased access) to the AEP Network must not be contrary to the public interest. The criterion is expressed in the negative so it is not necessary for the Minister to be positively satisfied that access is in the public interest. It is generally accepted that a better outcome must be achieved by coverage; in other words, the benefits of coverage are not to be less than the costs of coverage. In its 2010 decision in the Pilbara rail case, the Australian Competition Tribunal confirmed that the public interest criterion did not require a precise quantifiable cost-benefit analysis.

44. The Minister has a broad discretion to consider public interest matters. Horizon Power's view on the main public interest benefits are set out below. These public interest benefits includes those identified in this application under criteria 1 and 2 and additional benefits set out below.

Economic efficiency gains

45. The lack of open access to the AEP network is a key issue for the efficiency of electricity generation and transmission in the Pilbara. The resulting problems and risks are expected to increase over time with system growth.

46. One contributor to inefficiencies is that many resource companies with long ore projects have built their own power stations in the Pilbara to support their operations and future expansion strategies. These privately supplied power stations meet the immediate needs of the resource companies. However, these are far less efficient than an integrated solution and require large capital prior to start up

47. Increased access to the AEP Network, when combined with Horizon Power's existing open access regime, would be a key step toward resolving some of these inefficiencies as:

    (a) it would allow more efficient utilisation of existing generation capacity (which in turn reduces the need for the duplication of transmission assets and allows the deferral of future investment);

    (b) loads could be aggregated to:

        (i) allow larger and more efficient power stations;

        (ii) maximise individual generator dispatch; and

    (c) there would be significant operating cost savings including lower overall fuel usage.

48. By way of example, the Tiger substation owned by FMG is currently connected to the AEP Network. FMG have an Electricity Network Access Contract with Horizon Power from 2017 onwards and, without coverage, Horizon Power will need to duplicate the AEP Network, or possibly the Tiger substation, to meet FMG's increased requirements resulting in a more economic outcome.

Economic and regional development

49. As mentioned above, the lack of access to the AEP Network, is a key issue for the sustainability of power supply to the region. The lack of information sharing is also a major concern. Since the significant market reforms that were implemented in 2002 following publication of the *Power for the Pilbara*[11] report, improved technical communication and co-ordination between market participants has been eroded over time. For example, the control centre for the Pilbara does not have visibility of the recently constructed Tiger substation. Companies are no longer sharing peak demand or capacity information to support effective operational and planning decision making. The combined effect is likely to lead to a higher frequency of power outages, resulting in production losses and offsetting some of the competitive advantage of businesses in the Pilbara.

50. Further, the power stations built by resources companies tend to target one specific mining project and are not incentivised to undertake broader developments. This is not consistent with regional plans for economic development.

51. Increased access to the AEP Network will facilitate regional development through:

(a) enabling power stations to be built where they will best serve the region, leaving a lasting positive economic, social and environmental legacy for future generations;

(b) facilitating efficiency gains as described above; and

(c) increasing competition in the markets identified at paragraphs 14 above, which in turn would facilitate:

(i) the entry of more resource explorers and developers (particularly junior mining companies without the resources to build their own power station) into the relevant Pilbara markets;

(ii) the entry of, or continued support to, industry dependent on or linked to the resource industry (particularly in the Port Hedland port development).

The interests of consumers generally

52. Coverage of the AEP Network is likely to assist in avoiding investment in additional network capacity by Horizon Power, improving Horizon Power's costs of production, thereby resulting in broader public benefit through a reduction in the Tariff Equalisation Contribution, a charge currently levied on users of Western Power's distribution system.

Ecologically sustainable development

53. As noted above, one of the efficiency gains from increased access to the AEP Network, when combined with Horizon Powers existing open access regime, is larger more efficient power stations. In turn, this will result in environmental benefits in the form of more efficient power stations, lower fuel usage and reduced carbon emissions.

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[11] *Power for the Pilbara*, Report of the North West Interconnected System Taskforce, January 2002.

Other

54. Horizon Power considers that there is no public interest in Horizon Power's Transmission Network being covered because Horizon Power already provides open access on terms and pricing consistent with the Code. In these circumstances, extending coverage to Horizon Power's Transmission Network would result in no tangible benefits to users and the community but would result in significant regulatory costs.

55. Horizon Power acknowledges that there will be a regulatory cost associated with coverage of the small but significant AEP Network. However, access to the AEP Network is critical to enable the majority of the electricity suppliers in the East Pilbara to efficiently compete for the largest, by volume (over 75%), electricity consumers in that region. Horizon Power submits that the benefits of coverage of the AEP Network outweigh the costs in circumstances where coverage will avoid possible monopolist behaviour by a vertically integrated supplier, will result in significant cost efficiencies by avoidance of unnecessary capital expenditure in duplication of existing capacity and improve security of supply in the region.

Other mandatory considerations

56. The geographic scope of the AEP Network is considered in detail at paragraphs 10 - 12 above.

57. As outlined above, third party access to the AEP Network on reasonable terms, when combined with the existing Horizon Power open access offering, is a key step towards open access in this area. Further, it will result immediately in more economically efficient investment in and operation and use of the AEP and Horizon parts of the Interconnected System, thereby promoting competition in generation and retail markets in the Pilbara.

Conclusion

58. For the reasons set out above, Horizon Power considers that coverage of the AEP Network is consistent with the Code objective and satisfies the test for coverage in the Code as:

    (a) it will provide a platform to open up competition to a substantial proportion of the East Pilbara electricity supply market;

    (b) it will take away the incentives for the vertically integrated operator of the AEP Network to use that network to reduce competition in that market;

    (c) it is uneconomic for anyone to duplicate the AEP Network due to Alinta's ability to take advantage of its position as a vertically integrated power supplier in the Pilbara; and

    (d) it will result in significant public interest benefits of:

        (i) avoiding unnecessary capital expenditure in duplication of existing network capacity,

        (ii) resulting in a reduction in Horizon Power's production costs with consequential reductions in power costs for consumers in the Pilbara (potentially also resulting in a benefit to all customers in the SWIS through a reduction in the Tariff Equalisation Contribution); and

        (iii) improving security of supply in the East Pilbara region.