



Government of **Western Australia**  
Department of **Treasury**

# Design Consultation Paper – Regulatory framework for the Pilbara electricity networks

Stakeholder Reference Group  
Presentation

21 February 2018





# Agenda

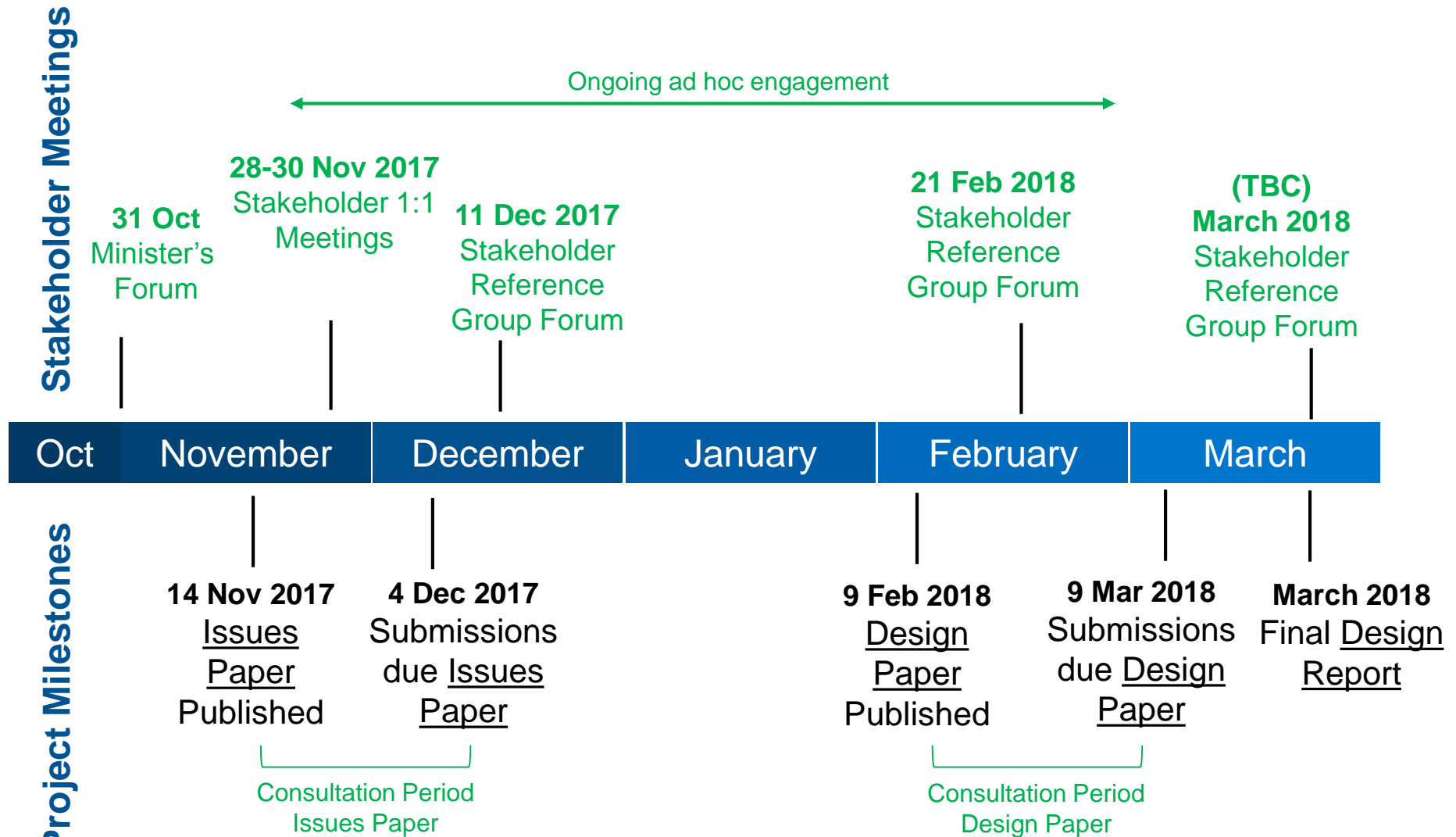
1. **Overview and Key Design Elements**
2. **Light Access Framework**
3. **ISO Model**
4. **Next Steps**



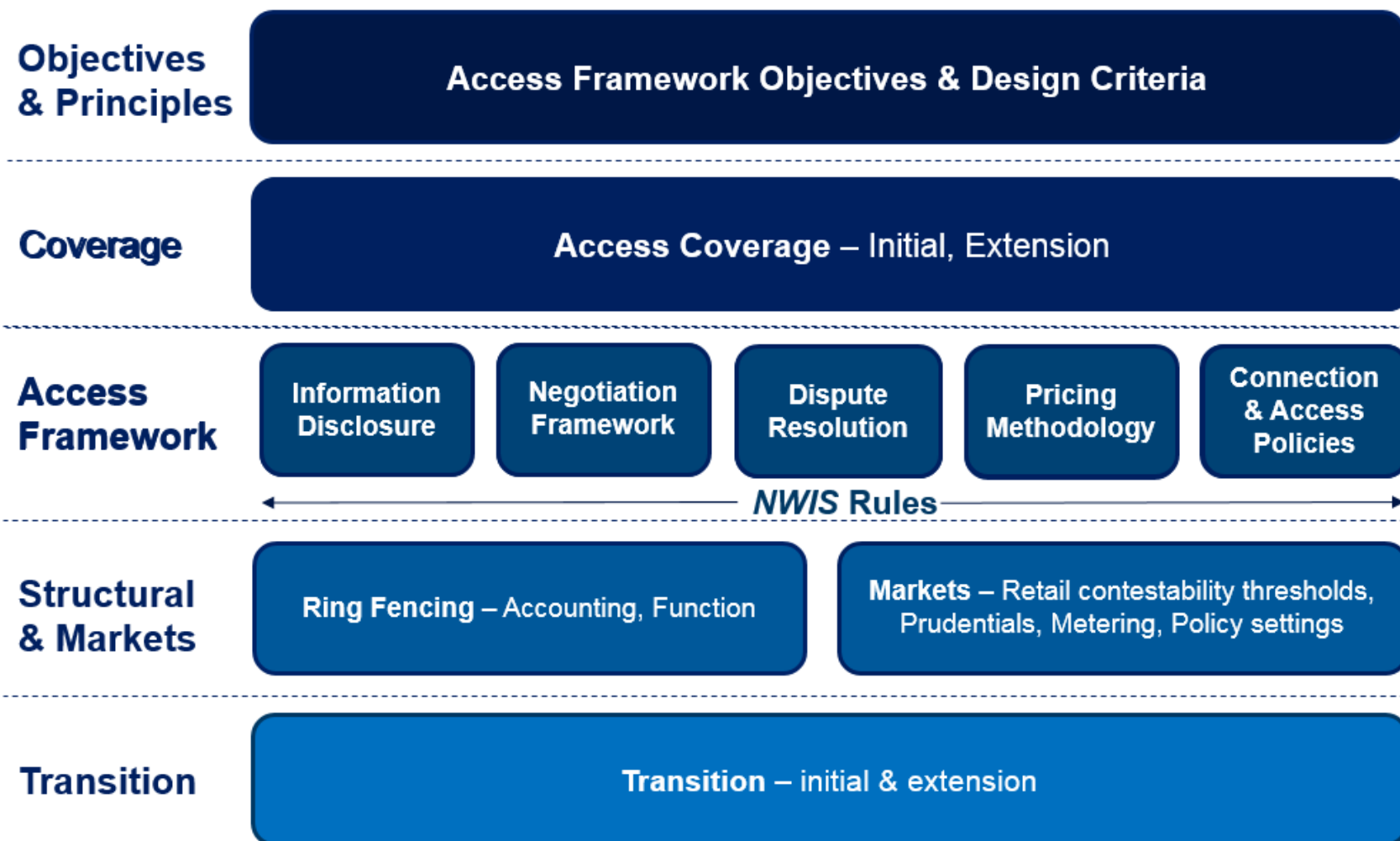
# Overview and Key Design Elements

Zaeen Khan

# DESIGN PROCESS



# KEY ELEMENTS OF LIGHT HANDED ACCESS REGIME

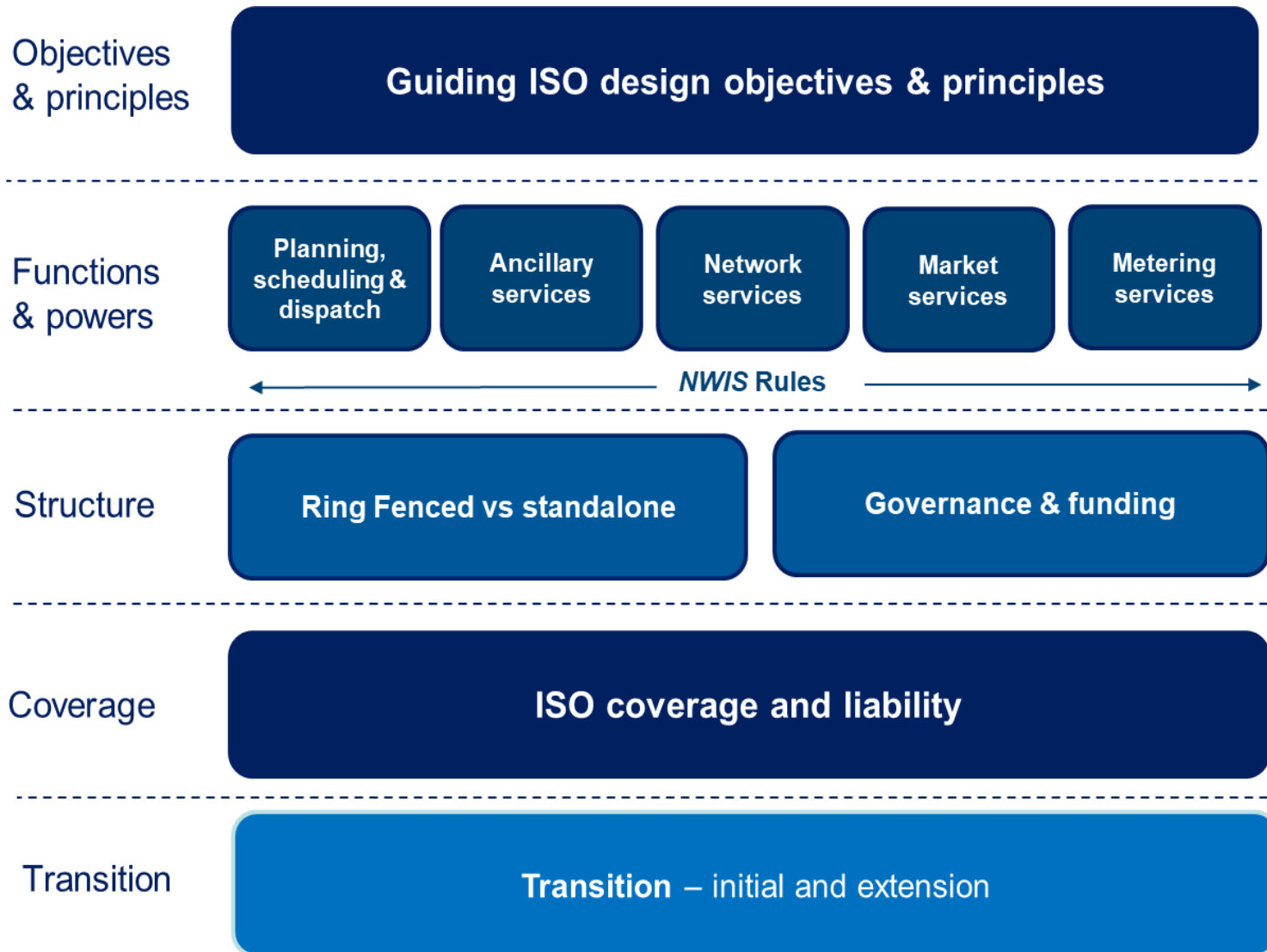


# KEY ELEMENTS OF LIGHT HANDED ACCESS REGIME

The Design Paper proposes a fit-for-purpose light-handed third party access regime for the NWIS that consists of the following design elements, to apply to covered networks:

- **Pricing Principles** that are consistent with the outcomes of a workably competitive market to guide price setting and to provide reasonable assurance that any access pricing dispute will be successfully and cost-effectively determined.
- The requirement for a service provider to establish, maintain and publish **Reference Tariffs** and standard Access Terms as a starting point for negotiations.
- **Commercial negotiation** as the vehicle to resolve access agreements, including applicant-specific pricing; and
- Clear and binding **arbitration**, administered by the ERA, should negotiations reach an impasse.

# KEY ELEMENTS OF ISO MODEL



# KEY ELEMENTS OF ISO MODEL

The Design Paper proposes an ISO with the primary objectives to **improve system security and reliability** and, through independence and stability of the regime, facilitate **efficient operation of and investment** in the NWIS.

- Stand-alone entity with an independent board (AEMO proposed)
- Responsibilities cover the entire NWIS Interconnected System
- Immune from damages claims
- Functions include:
  - Planning, scheduling and (limited) dispatch functions
  - Management of provision of Ancillary Services
  - Network coordination, connection & access, and production of statements of opportunities
- The scope of ISO functions largely formalises what already occurs today on a less formal basis between participants
- ISO powers will not extend to daily operational control of NWIS networks
- Costs will be recovered from NWIS participants.





# Light Access Framework

Paul Sell

# COVERAGE – STAKEHOLDER VIEWS

## Initial Coverage

- Stakeholders presented a range of views on initial coverage (not all stakeholders presented a view)

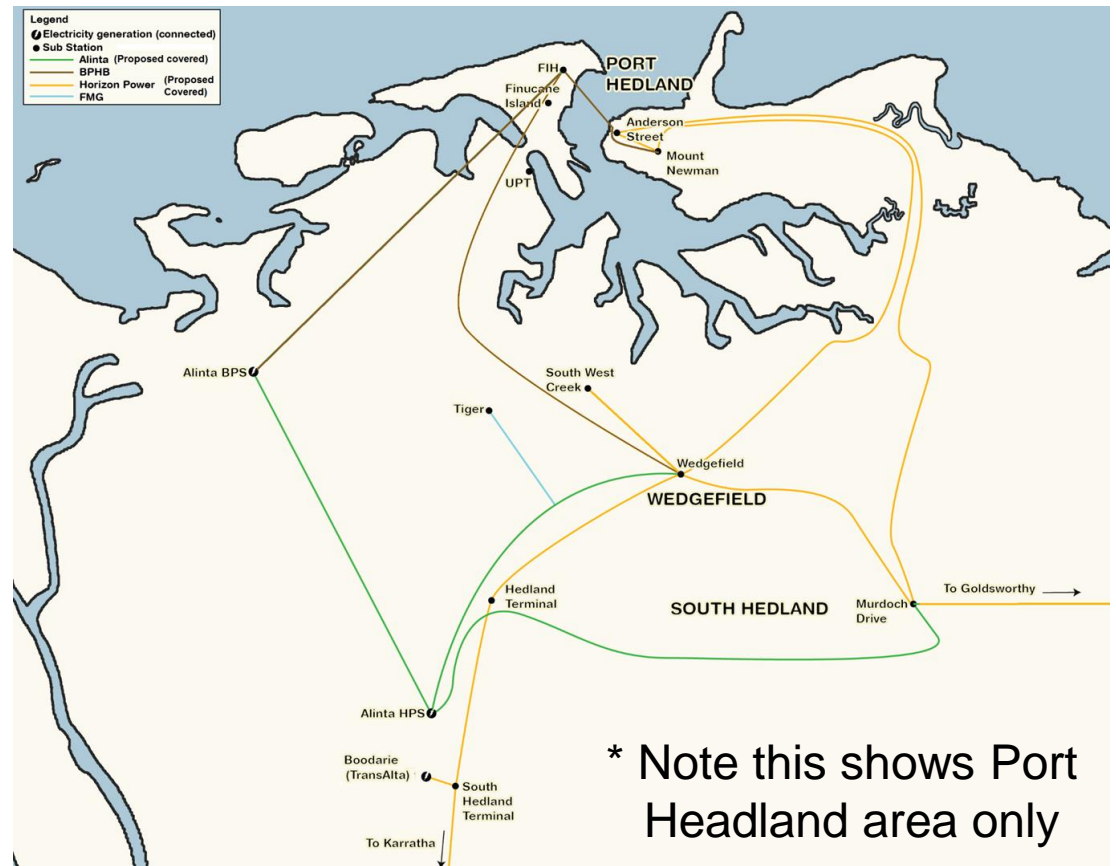
Horizon's network only	Horizon + Alinta networks	Coastal networks	NWIS Interconnected Network
Alinta FMG Rio Tinto	BHP Horizon*		Horizon** Woodside TransAlta Pilbara Development Commission Town of Port Headland Shire of East Pilbara City of Karratha
*starting point **longer term vision			

*Businesses that prefer limited coverage initially, generally support mechanisms to potentially extend coverage in the future*

# INITIAL COVERAGE

The following interconnected networks in the Coastal Region of the NWIS will be covered at regime commencement:

- the Horizon Power interconnected network; and
- the Alinta DEWAP interconnected network.



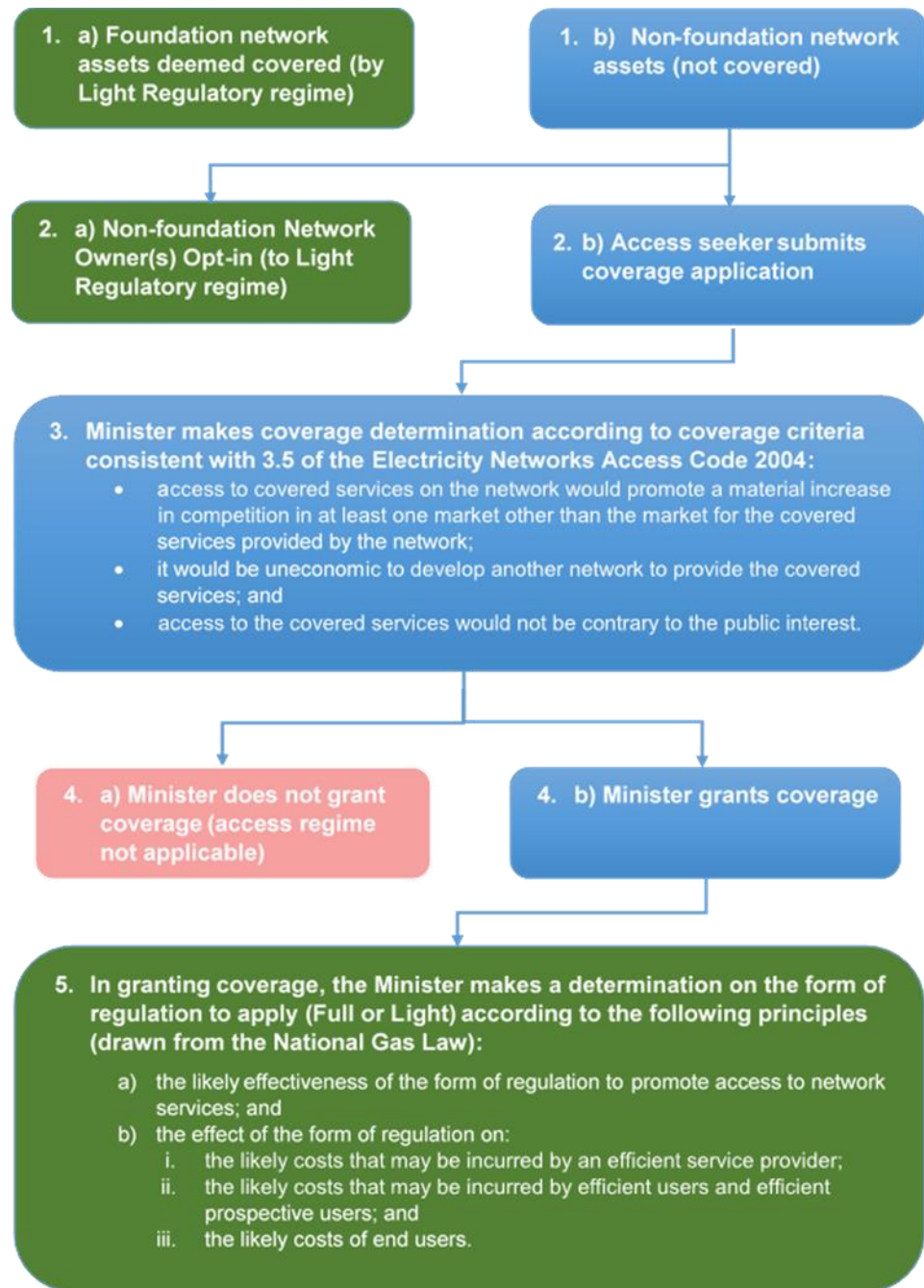
Objectives:

- Maximise economic **benefits of competition** at regime commencement
- **Not jeopardising** the integrated nature of the **mining operations** (particularly in the absence of any bona fide user applications for coverage).

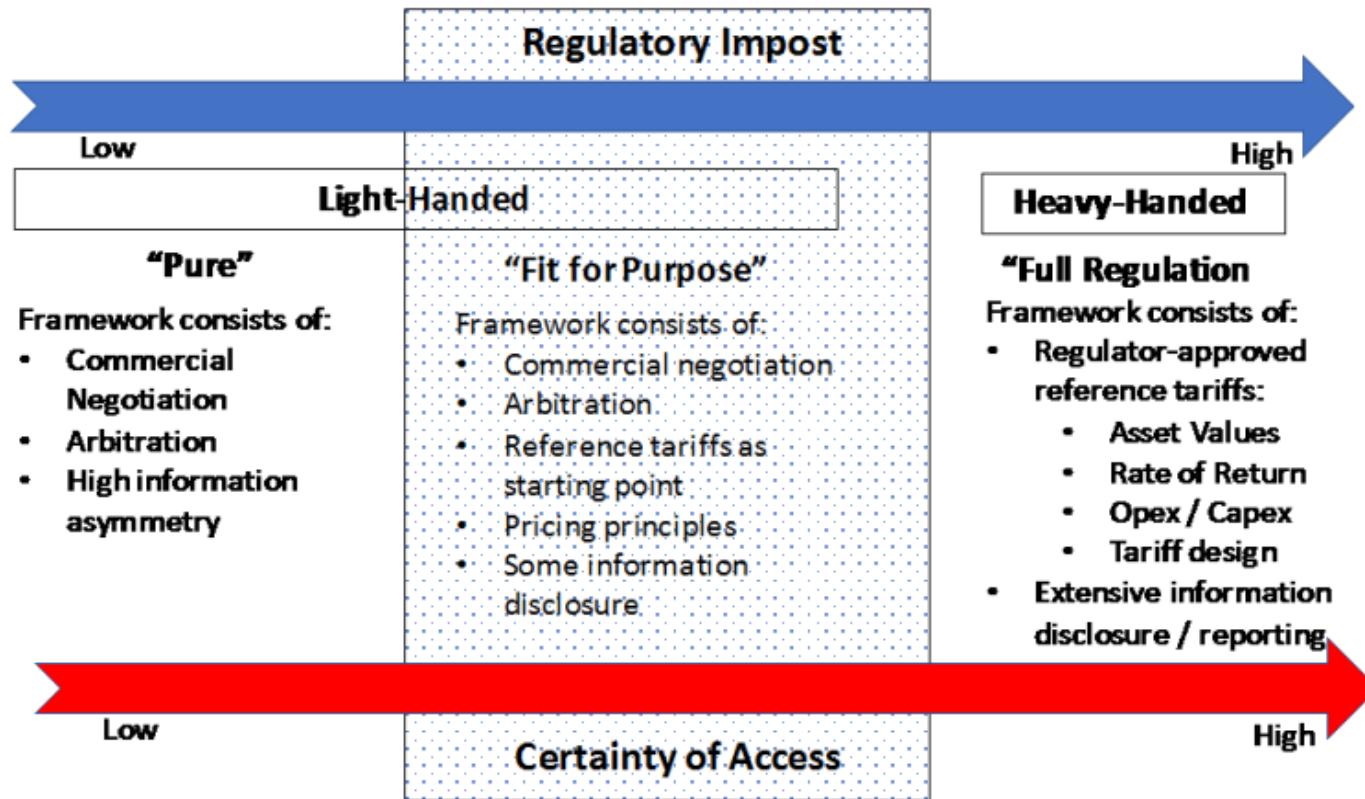
# FUTURE COVERAGE

1. Networks will be permitted to **'opt-in'** at any time.

2. Coverage will be extended in the future by application of the existing **Access Code coverage test as determined by the Minister.**



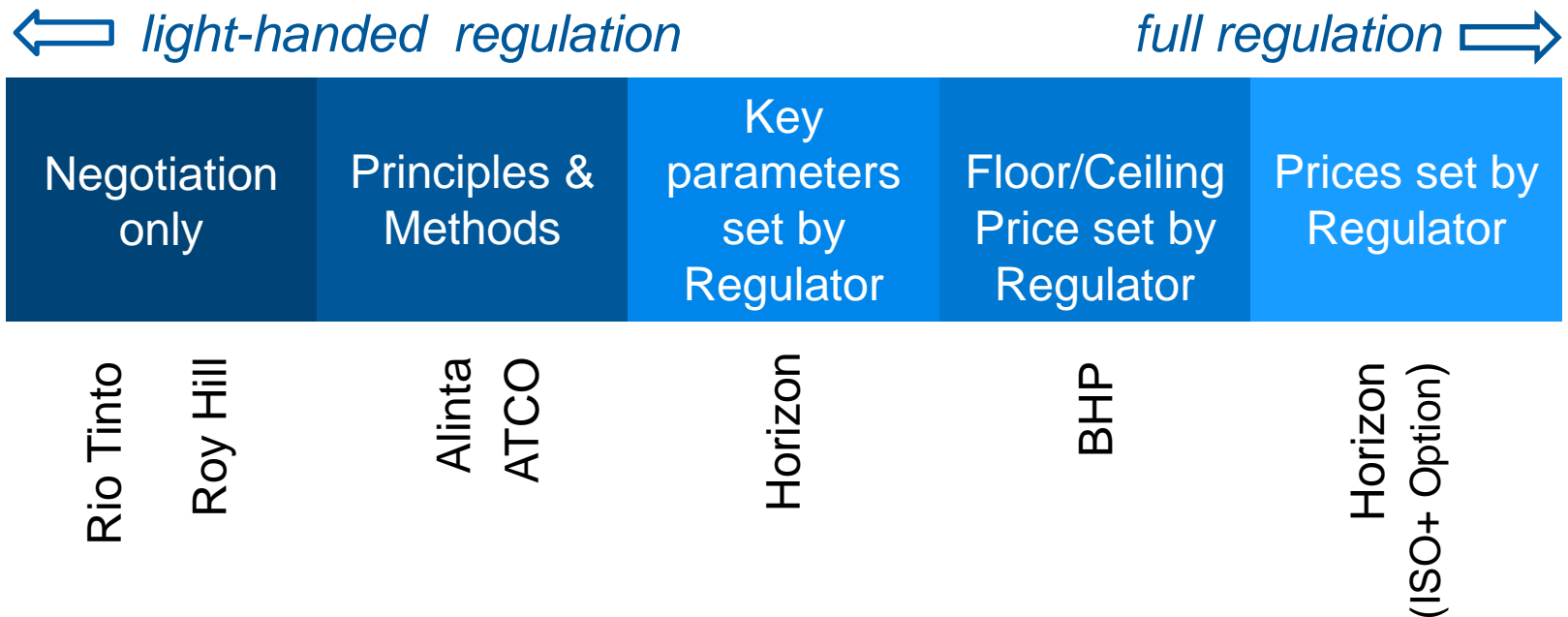
# CONTINUUM OF ACCESS PRICING MODELS



- Onus for developing, negotiating and if need be, defending the pricing methodology at binding arbitration placed on the access providers.
- Real threat of binding arbitration to enforce pricing discipline from access providers, rather than prescriptive regime

# ACCESS PRICING – STAKEHOLDER VIEWS

- Submissions presented a range of views on pricing
- The options below would be supported by information, negotiation & dispute guidelines



- \* Defined Principles & methods would apply for all but 'Negotiation Only'

# ACCESS FRAMEWORK – PRICING

## Pricing Principles

- to guide price setting & arbitration

## Access Pricing Guidelines

- Building block approach
  - Simple guidance on building block components
  - Simple guidance on setting Access Tariffs
- Non binding (although taken into account in arbitration)

## Reference Tariffs

- Demonstrate consistent with Pricing Principles; and
- Describe methodology and key assumptions

## Non-reference Tariff

- By mutual agreement

# ACCESS FRAMEWORK – INFORMATION, NEGOTIATION, DISPUTE

- **Information Disclosure** Requirements will be developed in consultation with stakeholders
  - specify the information that must be published by covered networks and the timetable for publication
- A **Negotiation Framework** will be developed, setting out requirements for each covered network to produce and publish:
  - a user access guideline
  - the process for making an access request
  - the process for making access offers, and
  - the process for negotiating access, pricing, and access terms and conditions
- A **Dispute Resolution** Framework will be developed
  - clear and binding
  - administered by the ERA



# ACCESS FRAMEWORK – CONNECTION

## Market carriage model

- Consistent with other Australian power systems

User	Access
Existing Generators	<b>‘Unconstrained’ access</b> (not constrained to a greater extent than at regime commencement)
New Generator or expanded capacity	<b>Constrained access</b> Appraised (by ISO, without guarantee) of the likely extent of constraints and the options for relieving those constraints (at generator’s cost)
Loads	<b>Access at default security levels</b> To be defined, but with provision for specific loads to request bespoke access and connection point security criteria

- Networks responsible for connection process
- ISO responsible for ‘electricity transfer & access’ aspect of new connections

# STRUCTURE, MARKETS, & TRANSITION

- Covered networks' regulated activities and functions will be required to be **structurally or functionally separated** from their non-regulated activities and functions
- Due diligence required to ensure **transitional and consequential policy issues** are appropriately addressed (including impact on State finances and SWIS customers, contestability thresholds, TEC settings, access to UTP and default retailer arrangements).
- **Transition Plan** for the new NWIS Light Access Regime
  - allow timelines that permit service providers to efficiently meet new obligations
  - ensure existing contractual positions and operating positions are suitably protected



# ISO Model

Mark de Laeter

# DESIGN OBJECTIVE & PRINCIPLES

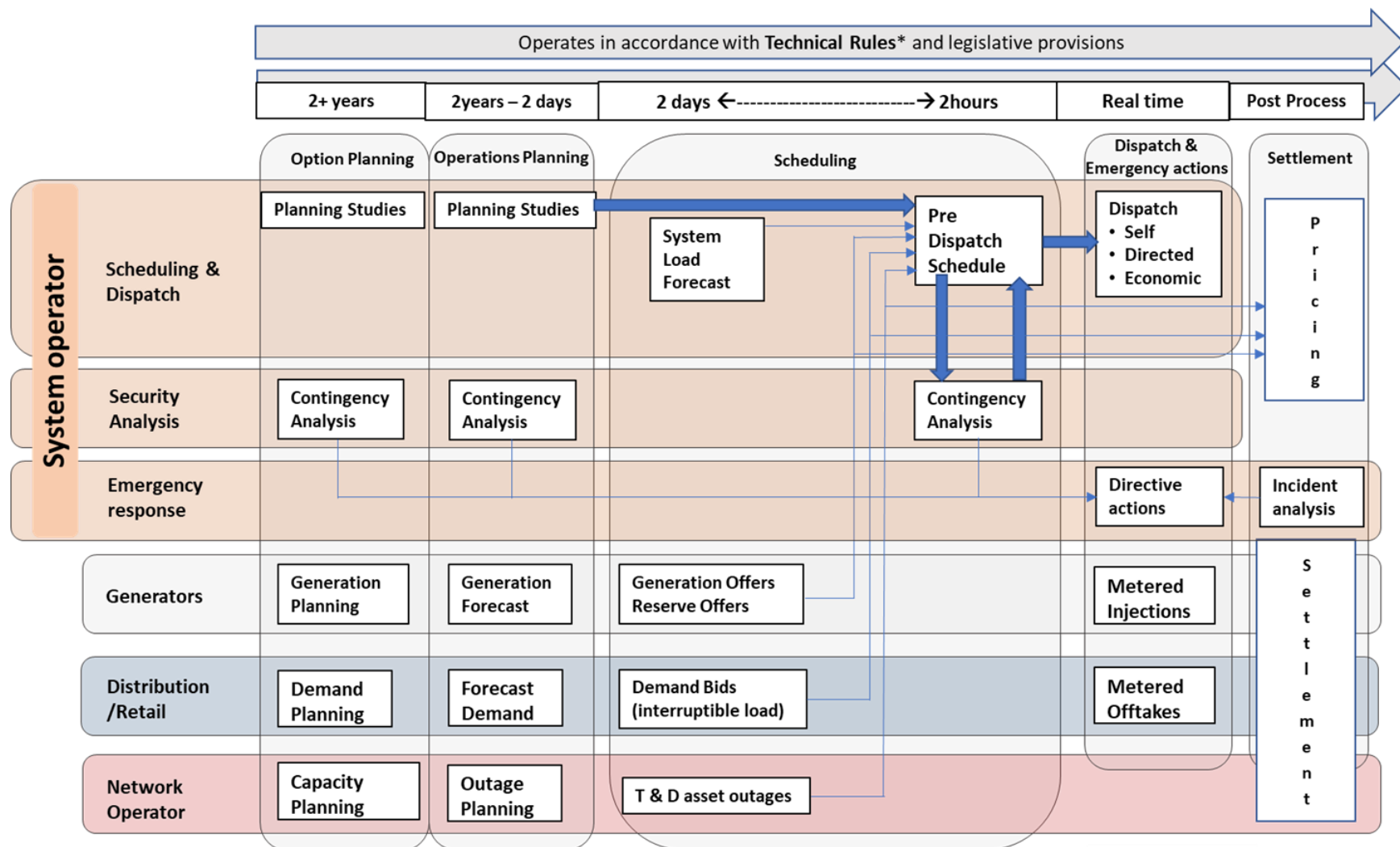
## Design objective – modified National Electricity Objective

*‘to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system.’*

## ISO design principles

- (i) The ISO’s core function is to ensure the reliability and stability of the system;
- (ii) The ISO should act with impartiality and transparency;
- (iii) The ISO should act to maximise overall system efficiency;
- (iv) The cost of establishing & operating the ISO should be kept to a minimum;
- (v) Proposed arrangements should consider the commercial interests and priorities of privately-owned electricity network assets in the NWIS;
- (vi) Technical standards should not present a physical constraint to potential future interconnection of the NWIS, or a barrier to any technology type; and
- (vii) ISO effectiveness should be reviewed periodically.

# TYPICAL SYSTEM OPERATOR FUNCTIONS



\* Or an equivalent

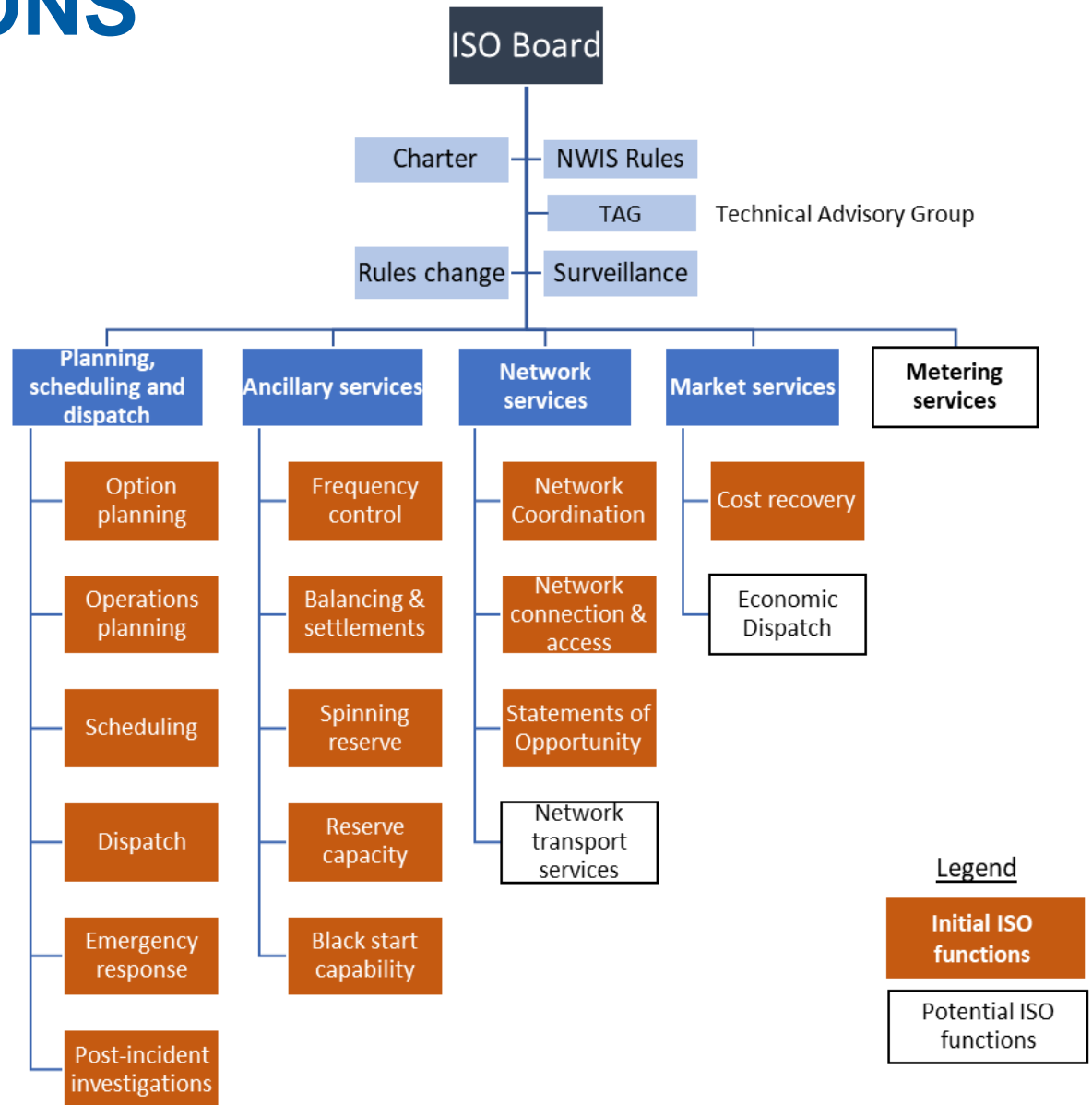
# GOVERNANCE

The ISO will be a **stand-alone entity**, with the proposed functions undertaken by **AEMO**:

- Some services may be provided by other providers under contract
- Revenue and expenditure forecasts will be independently approved by ERA
- Costs will be recovered from NWIS participants.
- Governed by the AEMO Board (on the basis that AEMO undertakes the ISO role)
  - Its charter will be established with the involvement of key stakeholders.
- The ISO surveillance functions will be provided to the ISO governing body by the ERA.
- Governs the proposed new NWIS Rules – change management will be a service provided to the ISO governing body by the ERA.

# ISO FUNCTIONS

- The scope of ISO functions largely formalises what already occurs today on a less formal basis between participants.
- The ISO will have sufficient powers to effectively enact its obligations.
- ISO powers will not extend to daily operational control of NWIS networks unless by agreement.



# COVERAGE & POWERS

The ISO will have coverage of the **entire NWIS Interconnected System**, with powers limited to those necessary to undertake its assigned functions.

- The ISO will not have powers to interfere with the efficient operations of networks, other than to protect the security and reliability of the NWIS
  - these powers do not necessarily require direct control of all network elements
  - Asset owners may elect to have the ISO operate their assets
- Any changes to the ISO powers will be subject to rigorous analysis with stakeholder input to ensure that there is a material net benefit of any changes.
- The ISO will be required to work cooperatively with asset owners who choose to manage the day-to-day operations of their assets (and vice versa)

The establishment of and consistent application of a unified set of NWIS Rules will be a key element in underpinning the secure, reliable and efficient operation of the NWIS interconnected system.

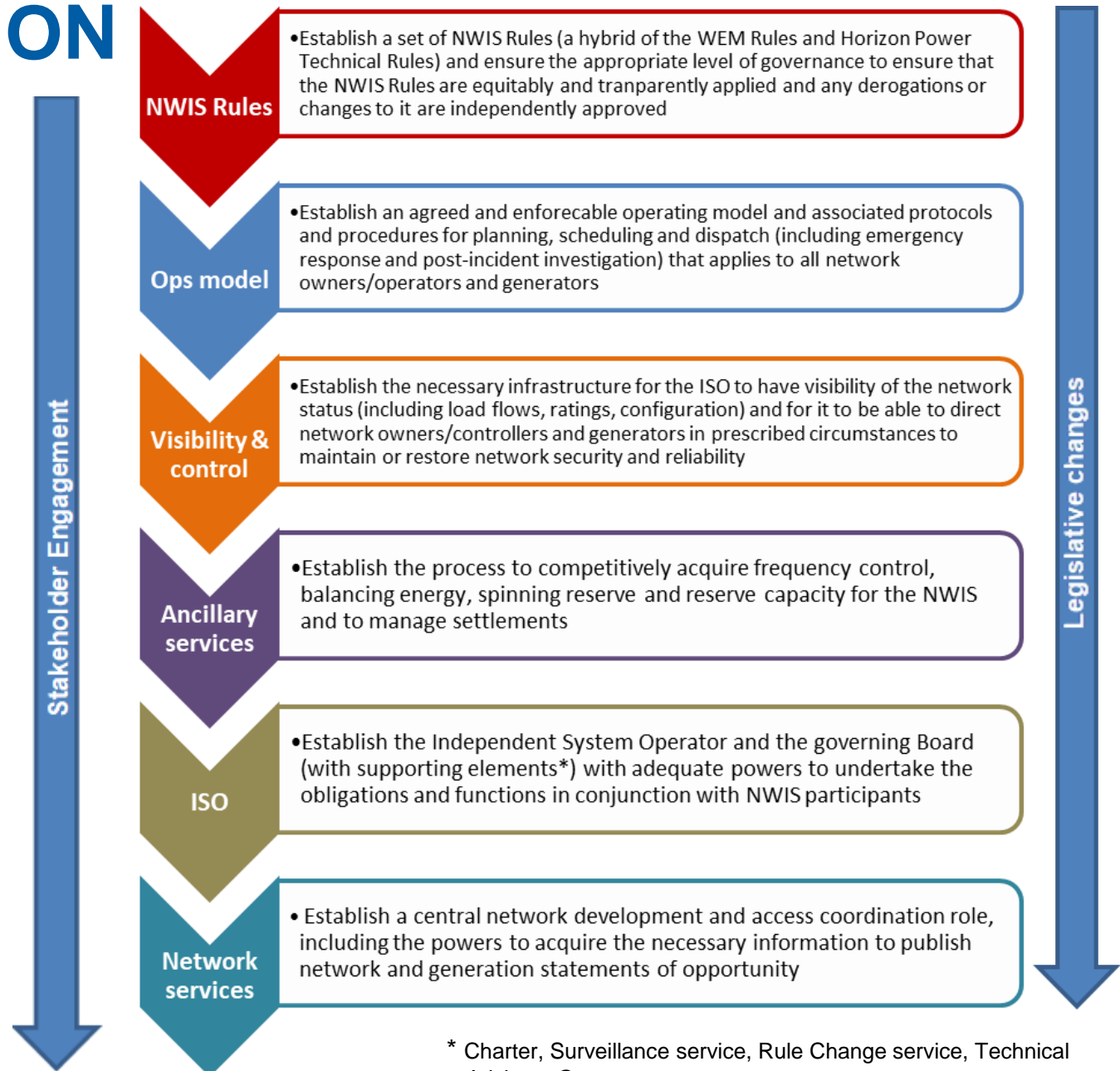


# LIABILITY

The ISO will have the same immunity from damages claims as AEMO has for its operations in the SWIS.

- The ISO will be established as a small entity which recovers its costs on a 'fee for service basis' without recourse to a substantial balance sheet
- Several stakeholders noted that the ISO should have the same protection as afforded to AEMO in undertaking its functions in the SWIS.
- We also note that it is extremely unlikely that any system operator (and individuals therein) would take on the risk of third party claims.

# TRANSITION



# COST

- Still to be resolved - general reference band between \$5 million to \$15 million established.
- Cost can be kept to a minimum by:
  - leveraging off existing entities for provision of services to the NWIS, which should mean costs attributable to the NWIS ISO should be incremental;
  - leveraging off existing documents, procedures and systems; and
  - drawing on in-kind support from key stakeholders to provide their expertise in the development of the proposed NWIS Rules.
- ISO costs will be subject to a detailed due diligence assessment once the final model has been confirmed.



# Next Steps

Noel Ryan

# DESIGN PROCESS – NEXT STEPS

1. Ongoing ad hoc engagement with stakeholders on specific issues
2. Submissions in response to Design Paper due **9 March**
3. Final Design Report developed for Minister in March with Cabinet submission to follow
4. Final SRG Forum to be held in March to close-out this phase of engagement
5. Subject to Government approvals, the implementation phase will involved a similar (if not more detailed) level of stakeholder engagement.

# NWIS REGULATORY REFORM IMPLEMENTATION TIMELINE

Milestone/activity		Date
Government consideration of proposed design of the regulatory framework and implementation plan		March 2018
<b><i>Implementation – Phase 1</i></b>		
Independent System Operator due diligence process		April 2018 – July 2018
Legislative Drafting		April 2018 – July 2018
Various workstreams to prepare Rules, Codes, Guidelines etc. with stakeholder working groups		April 2018 – December 2018
Legislation introduced in Parliament		August 2018 – December 2018
Develop Transition Plan		August 2018 – December 2018
<b><i>Implementation – Phase 2</i></b>		
Execute transition plan		January 2019 – June 2019
Stakeholder Engagement		January 2019 – June 2019
New regime commencement		July 2019
Mandatory post implementation review		July 2020



**Questions?**