

3 April 2018

Mr Noel Ryan
Public Utilities Office, Department of Treasury
David Malcolm Justice Centre
28 Barrack Street
PERTH WA 6000

Dear Noel Ryan,

Response to Position Paper: Improving Access to Western Power's Network – TransAlta

TransAlta has reviewed the position paper containing suggested reforms to provide constrained access to the Western Power network, and the associated changes to the Wholesale Energy and Reserve Capacity Markets (**Position Paper**), as issued by the Public Utilities Office (PUO) in February 2018 and welcomes the opportunity to make comment on the proposed changes.

TransAlta Energy (Australia), through its various subsidiary companies Southern Cross Energy Partnership and Goldfields Power Pty Ltd and partnerships, acts as a Market Generator and Market Customer in the Wholesale Energy Market. Through these companies, TransAlta operates generation assets in the Eastern Goldfields region.

TransAlta would like to make a number of comments on specific parts of the changes that have been proposed in the hope we can make a positive contribution to the reform discussion. The PUO has release three papers for consideration by industry. Given the interrelated nature of the proposals, TransAlta has combined all comments into this one submission.

As a general comment, given the significance of the changes being proposed by the PUO, TransAlta would like to see a cost-benefit assessment conducted by the PUO before any significant changes are considered. While cost-benefit assessments can be complicated to undertake and difficult to ensure precise results are obtained, they do allow for the impacts of changes to be quantified within a reasonable level of directional accuracy.

Modifying Access Agreements

PUO Proposal: Manage inconsistent contractual provisions via legislative intervention.

Comment: Given the bespoke nature of existing access agreements between Western Power (WP) and Independent Power Producers (IPP) and the potential impact of changes to those agreements, there is a risk that broad legislative instrument will not provide sufficient detail for interpretation at an individual contract level. It is likely that access agreements will end up being renegotiated in any event, given the level of unforeseeable risk.

TransAlta requests that should this remain to be the preferred instrumentality, the PUO provide further detail on the nature and scope of the legislative change and provide participants with an opportunity to contribute further to the consultation process. Additionally, further detail is required on any protection mechanisms available to resolve any disputes that arise between individual contract holders and Western Power. This will be essential given that Western Power as the monopoly contract counterparty will hold significant negotiating power in these transactions.

Determination of Constraints

PUO Proposal: Adopt a framework of constrained network access. The adoption of a security-constrained market design will mean that the physical limitations of the power system will be accounted for

Comment: The PUO discusses the physical limitation of the network as the foundation of the constrained market design. These physical limitations will flow through to potentially adverse financial impacts for IPPs in constrained locations, noting that some generators were built in locations previously considered opportune in line with market signals, but that may now be under constraint. TransAlta seeks further clarification on how constraints will be determined.

Furthermore, existing market procedures dictate how a constraint is communicated to both generator and the wider market. TransAlta queries how such constraints will be communicated to the market and what power IPP's will have to challenge constraints imposed upon them.

Constrained-off Compensation

PUO Future Decision: The PUO has proposed a mechanism whereby compensation is retained for generators that are constrained off under the new arrangements.

Comment: Constraining a generator down, or off altogether, impacts the true-cost of generation and can lead to the generator making a loss in the Balancing Market. The constrained-off compensation regime offers some certainty that such short-term losses will be recovered. However, if this mechanism is removed, it may have an adverse effect on electricity prices, since these losses will need to be recovered. A proper risk assessment should be completed by the PUO to explore likely outcomes and the impacts on prices for end users.

Facility Bidding for all Participants

PUO Proposal: All participants will be required to bid into the market on a facility basis.

Comment: The PUO's proposal that all generators participate on an equal basis via facility bidding in combination with a common gate closure is aligned to the principles of the market reform. However, the PUO has not detailed the costs of such changes and how these costs will be recovered. Consistent with the theme in our submission, we believe it is incumbent on the PUO to conduct a rigorous cost-benefit assessment. Only with robust financial assessment will the PUO be properly positioned to consider the impacts of these changes.

Transitional Arrangements of Network Access Contracts

PUO Request: Feedback on mechanisms to provide transitional assistance.

Comment: TransAlta, through one of its subsidiaries holds a significant financial interest in one of the substantial network elements. These interests arise through having contributed to the development of the network. To summarily remove contractual rights without compensation by the government would be unconscionable. TransAlta is encouraged to see an acknowledgment by the PUO that transitional arrangements are required. However, network assets often have an economic life of 60 years and so transitional assistance or compensation must account for nature of the investments that have been made and the value that may be lost by those who have invested in critical state infrastructure.

One question remains, which is who will be responsible to pay for compensation for any transitional arrangements?

Furthermore, transitional arrangements may be required to facilitate moving the reference node. Loss factors act as a market signal to incentivise generators locating where required and generator's future projections are based on loss-factor adjusted revenue. While not raised in the paper, summarily changing the reference node will likely represent sovereign or regulatory risk for those entitled within the market that had made investment decisions based on the structure of the market. This is particularly important for energy producing participants.

Capacity Priority

PUO Proposal: Capacity priorities and a “first-come first-served” approach should be adopted as a first method of resolving a capacity credit “tie break”.

Comment: TransAlta acknowledges the PUO’s proposal to use a “first-come first-served” approach to determine a capacity priority, though a 10-year ‘capacity priority’ expiry may be too short relative to the capital life cycle of some new generators. This essentially provides a transitional mechanism that attempts to account for prior investments made by existing market participants.

TransAlta recommends a 20-year capacity priority on the basis that retiring plants would lose their priority due to the ‘use it or lose it’ scheme. The proposal is intended to protect incumbent generator’s entitlement of capacity given that they have likely made investment decisions based on an unconstrained network.

However, we note that as the WEM is based on bilateral contracts between customers and generators, the value of capacity credits will be different between generators and not necessarily equal to the market price. Requiring new entrants to pay existing participants for the capacity credits they lose at the market price may not capture the actual contracted price at which those credits are settled between the (existing) participant and its customer. Credits assigned to new entrants will need to be dealt with separately to maintain the integrity of contractual arrangements. More detail should be provided by the PUO to explain how cash flows and capacity credits will work under the proposed mechanisms.

General

TransAlta notes that no consideration has been made about the costs of implementing these reforms. The identifiable costs, in TransAlta’s view include:

- Transitional compensation identified by the PUO (incumbent participant)
- Single facility bidding, with a primary cost to Synergy (an incumbent participant).
- 5-minute dispatch, with changes to bidding systems of all current market participants and by the AEMO (incumbent participants)

These costs will very likely be in the hundreds of millions of dollars, and we strongly recommend the PUO complete a rigorous cost benefit assessment before reforms are progressed.

If you have any questions regarding this submission please contact me on 9420 0628.

Yours sincerely,



Troy Forward

Group Manager, Commercial & Markets,