



12 October 2018

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Dear Ashwin

## Improving access to the Western Power network: proposed approach to implement constrained network access

Alinta Sales Pty Ltd (**Alinta**) welcomes the opportunity to provide a submission to the Public Utilities Office (**PUO**) on its proposed approach to implement constrained network access.

Alinta is a generator and retailer of electricity and gas in Western Australia and its operations in the SWIS are supported by contracts with Western Power for network access. These network access contracts were negotiated and agreed in good faith and included Alinta as the access seeker paying for any necessary network upgrades as required by Western Power at the time. Furthermore, the terms and conditions of these contracts, including the allocation of rights and liabilities within the contacts, formed the basis of Alinta's critical long-term investment decisions in respect of its generation portfolio and the conduct of its ongoing business operations.

### 1. Introduction

The future role of network access is critical given the evolution of the Wholesale Electricity Market (**WEM**) and the transition to a low emissions future. Alinta values its current access rights, and changes to the network access framework, without careful consideration, could undermine investment incentives, as well as create a loss of asset value for existing access rights holders.

Noting this, Alinta recognises that Western Power's ability to connect new large generators to its network under the unconstrained market design has been limited for some time and reform is now needed to allow new generators to connect efficiently.

Western Australia is an attractive market for renewables investment given abundant natural resources and the design characteristics, with many renewable infrastructure investment projects looking to connect in the WEM for many years. The failure of the progression of the Network Bills as part of the Electricity Market Review meant that industry leadership was required to allow new generators to connect to the network. To that end, Alinta appreciates the work undertaken by Government, Western Power, the PUO and the Australian Energy Market Operator (**AEMO**) to facilitate the connection of new generation under the Generator Interim Access (**GIA**) solution.

Alinta considers that the GIA solution was a good first step to moving towards a constrained network access model and, in its April 2018 submission to the PUO, questioned whether the case for change for a move to a fully constrained network access model had been made sufficiently – at least in the medium term. Alinta recommended that further consideration be given to retaining a partially constrained network access model.

## 2. Case for change

Alinta acknowledges both the initial and updated modelling that the PUO has undertaken<sup>1</sup>, which, having assessed three possible network access models, resulted in the most efficient solution being identified by the PUO as fully constrained access.

Alinta appreciates the PUO's consideration in its modelling for retaining a partially constrained network access model and is somewhat comfortable that the case for change has now broadly been made (subject to the PUO addressing our concerns with the modelling, as detailed in section 4 below).

Alinta considers that a move to a fully constrained network access model should theoretically:

- Promote economically efficient supply of electricity by encouraging investment in assets with high utilisation levels;
- Remove a barrier to competition, as new entrants would not be required to pay network augmentation costs; and
- Minimise the long-term cost of supply.

Noting this, there are impacts on both the energy and capacity mechanisms in the WEM which need to be thought through in great detail. Specifically, new entrants will impact on existing generators (including earlier new entrants) for capacity accreditation purposes unless expressly addressed in the design. This is an unhedgeable risk which undermines past investment decisions and could inhibit future investment in both the WEM (and the network).

Therefore, as part of any move to a fully constrained network access model, significant work will need to be undertaken to ensure the development of suitable mechanisms:

- To ensure that the past contributions and legal rights of existing network participants are appropriately recognised; and
- Capacity Credit allocations are distributed equitably and appropriately under a constrained network access model.

## 3. Transitional assistance

It is in the long-term interests of consumers that investors do not suffer large, unforeseeable risks resulting from material regulatory change. Given this, Alinta considers it vital that any loss caused by the introduction of a constrained network access regime is appropriately compensated. This will provide both current and future investors with sufficient comfort that the market is able to transform as required, while simultaneously providing sufficient regulatory certainty and investment protection.

While Alinta appreciates the PUO undertaking its modelling to investigate the impacts on generators of adopting a framework for constrained access, Alinta is broadly concerned that a transitional assistance mechanism is still subject to a State Government decision.

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<sup>1</sup> For Alinta's detailed comments on the modelling please see section 4 in this paper.

Moving to a fully constrained network access regime involves a significant change to the basic premise of, and underlying commercial rationale for, the contracts that participants have with Western Power for network access. As demonstrated by the modelling, modification of contractual commitments will have adverse consequences for generators that have made investments based on the existing policy and regulatory framework.

To address this significant sovereign risk, Alinta is strongly of the opinion that legislative amendments are made to contain the necessary heads of power for transitional assistance, and that any such mechanism appropriately recognises the full and fair impacts on existing investors. For the avoidance of doubt, this includes:

- loss of generation revenue due to congestion;
- loss of Reserve Capacity revenue due to congestion;
- changes in energy price as a result of constrained access; and
- change in capacity credits as a result of constrained access.

We note that there is significant work to be undertaken in designing an appropriate transitional assistance mechanism, and to that end, Alinta looks forward to working closely with the PUO and Government to ensure that these arrangements are fit for purpose and adequately recognise existing participants' rights and contributions.

#### 4. Modelling

As noted above, Alinta acknowledges the work the PUO has done on the modelling to date. However, given the modelling is being used to inform decisions regarding transitional assistance, it is vital that the inputs and assumptions reflect the most recent and up to date information available.

To that end, Alinta has concerns with the modelling and considers that it is essential that the PUO addresses these concerns before moving to the next step in the reform process. This is required to ensure that current investors have accurate information to use as a baseline for their transitional assistance negotiations and will therefore be more likely to be compensated appropriately for any losses incurred because of this regulatory change.

Specifically, Alinta is concerned that the modelling, among other things:

- does not include Yandin Wind Farm<sup>2</sup>;
- significantly underestimates the Reserve Capacity Price that existing generators will receive by not reflecting the PUO's proposed recommendations on potential reforms to the reserve capacity pricing arrangements<sup>3</sup>;
- appears to include anomalous outcomes for intermittent facilities; and
- significantly underestimates new block loads, which haven't been accounted for in AEMO's ES00<sup>4</sup>.

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<sup>2</sup> Alinta recommended that the PUO include Yandin Wind Farm in its response to the Modelling inputs and assumptions paper stakeholder consultation in April 2018 and further recommended this in its meeting with the PUO where the Alinta specific outcomes were discussed.

<sup>3</sup> Available here: <http://www.treasury.wa.gov.au/Public-Utilities-Office/Industry-reform/Improving-Reserve-Capacity-pricing-signals/>

<sup>4</sup> Alinta is aware of three lithium projects alone which will be a total of more than 100MW of new load.

The effect of the above is a gross underestimation of the net revenue reduction to generators as a result of the implementation of constrained access.

Alinta considers that it is vital that the PUO addresses these concerns to ensure that the modelling best reflects the impacts on existing investors which is required to ensure current investors will be compensated appropriately for any losses incurred because of this regulatory change.

## 5. Conclusion

As noted above, Alinta considers that the case for change to move to a fully constrained network access model has broadly been made. However, in doing so, there will be significant impacts on existing investor's revenues, which will need to be compensated for via an appropriate mechanism. In order to support the development of an appropriate compensation mechanism, Alinta considers that refinements to the PUO's modelling are vital to ensure that the modelling outcome best reflects the impacts on existing investors.

Please contact me on [Jacinda.Papps@alintaenergy.com.au](mailto:Jacinda.Papps@alintaenergy.com.au) or 08 9486 3009 if you have any queries in relation to this submission.

Yours Sincerely



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