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Mr Ashwin Raj
Manager, Energy Networks
Public Utilities Office
Department of Treasury
Locked Bag 11
Cloisters Square WA 6850

via email: puosubmissions@treasury.wa.gov.au

Dear Mr Raj

IMPROVING ACCESS TO THE WESTERN POWER NETWORK

Thank you for the opportunity to provide feedback on proposed reforms to improve access to Western Power's network, as outlined in the consultation paper *Proposed Approach to Implement Constrained Network Access*.

Synergy supports the intent of adopting constrained network access to remove barriers to new generators connecting to the network, optimise network investment, mitigate potential for uneconomic dispatch and ultimately ensure there is deflationary pressure on the cost of electricity.

However, it is important that any transition to a constrained network access model takes into account existing contractual network access rights as well as the significant investments that have been made by incumbent generators to operate under the existing model.

As outlined in Synergy's previous submission, Synergy considers that a causer pays, market based approach to transitional assistance would be an effective way of balancing the need to lower barriers to entry for new generators while not devaluing incumbents' investments.

Synergy commends the Department of Treasury for developing the proposed reforms through the lens of a cost benefit analysis. A focus on costs and benefits will be important in ensuring the proposals remain fit for purpose as they become more detailed; and also as Western Australia's small and isolated electricity system continues to undergo significant changes as a result of rapid developments in technology, decentralisation of generation sources, and evolving customer participation and expectations in the market.

Scheme for transitional assistance

Synergy considers Treasury could improve its proposal by considering a causer pays, market based approach to transitional assistance funding for incumbents. As outlined in Synergy's previous submission, Synergy supports this approach on the basis that it would:

- allow generation businesses to hedge the risk of new entrant generators constraining their output, preventing an increase in risk premiums charged by investors;
- provide a locational signal that incentivises new entrant generators to connect in parts of the network where their value to the entire energy system is optimised; and
- be more equitable, as transitional assistance funding would be paid by generators causing constraints rather than by other market participants who may have no impact on constraints.

Synergy considers a causer pays, market based approach to compensation would also be more appropriate than the proposal to compensate generators based on their forecast (modelled) exposure to constraints. This is for two reasons:

- Firstly, as demonstrated by the recent significant revisions made to the modelled benefits of constrained access, modern power systems are notoriously complex, making any attempt to model benefits and costs over a 60 year horizon fraught with a high risk of forecast error.
- Secondly, modelling cannot account for the impacts of other planned market reforms – including the proposed development of ancillary services markets, and the implementation of the new reserve capacity allocation mechanism – both of which will significantly alter future revenue streams and affect new generation entering the market.

Synergy notes the design of the transitional assistance scheme will be subject to further consultation and analysis. Synergy understands Treasury's aim in proposing a modelling-based and individually negotiated compensation scheme is to ensure potential impacts not related to market revenue[1] can be incorporated into the scheme design. These impacts will not be known until generators assess their contractual positions in relation to the proposed reforms and consult with Treasury on their findings. It follows that this process may reveal that a hybrid approach to compensation is most fit for purpose. For example, certain impacts may be best addressed via negotiation and modelling while a market based mechanism could cover others.

If certain impacts can only be determined via individual negotiations, rather than a market-based mechanism, market participants will require transparency and an assurance that the transitional funding agreed between an impacted generator and Treasury is equitable and consistent.

Synergy understands Treasury's preference to make transitional assistance funding conditional on generators agreeing to certain terms, including sunset clauses and trigger events. However, Synergy cautions that these conditions could create perverse incentives for generation businesses. For example, there may be a risk that discontinuing transitional payments if a facility is modified or refurbished, may result in the deferral of refurbishment decisions.

Synergy is pleased to continue to engage with Treasury regarding the approach to transitional assistance funding and looks forward to providing further assistance and advice with regard to this important reform work.

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[1] For example, impacts to generators' respective fuel and power purchase contracts.

Should you wish to discuss these matters further, please contact Mr Jason Froud, Manager, Policy, on 08 6282 7395 or jason.froud@synergy.net.au.

Yours sincerely

JASON WATERS
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