

Level 3 Exchange House  
68 St Georges Terrace  
Perth WA 6000

Phone: +61 (8) 6143 1850  
Fax: +61 (8) 6316 4411



21 September 2018

Mr Ashwin Raj  
Manager, Energy Networks  
Public Utilities Office  
Department of Treasury  
David Malcolm Justice Centre  
28 Barrack Street  
PERTH WA 6000  
[ashwin.raj@treasury.wa.gov.au](mailto:ashwin.raj@treasury.wa.gov.au)

Dear Ashwin,

## Public Submission

### Response to Consultation Paper: Proposed approach to implement constrained network access

#### 1.0 Introduction

Thank you for the opportunity to comment on the Consultation Paper<sup>1</sup>.

Tesla Holdings Pty Ltd and its subsidiaries (Tesla) operates four 9.9 MW diesel generators in the South West Interconnected System (SWIS) that are mainly used to provide electricity to meet peak demands.

Tesla invested in these units based on current network access arrangements in the SWIS (i.e. “firm” and “unconstrained access”), the initial design of the Reserve Capacity Mechanism (RCM), as well as encouragement by successive WA Governments for increased private sector participation in the SWIS.

The ongoing financial viability of the units is highly dependent on the revenue earned by providing Capacity Credits under the RCM. Proposed reforms that impact capacity certification (i.e. constrained network access and associated capacity certification processes) and Reserve Capacity Prices (RCP) have the potential to significantly impact the profitability of the Tesla units.

Given the above, we have a significant interest in the development of capacity pricing options in the Wholesale Electricity Market (WEM) and provide this submission to ensure that decision

---

<sup>1</sup> Public Utilities Office, Department of Treasury, Improving access to the Western Power Network, Proposed approach to implement constrained network access, 9 August 2018.

makers consider the impact of proposed reforms on Market Participants and put in place arrangements that maintain the viability of dispatchable generation in the SWIS (such as Tesla's generation units) that is important in maintaining a reliable and secure electricity system in the South-West of Western Australia.

## 2.0 Loss of Tesla's Firm Access Rights

We were concerned that the loss of firm network access rights for existing generators would act as a barrier to future investment in dispatchable generation in the SWIS.

Tesla undertook the investment in four peaking units on the basis that we could dispatch the units to meet peak demand in the SWIS for the technical lives of the units (25 years). The implementation of constrained network access has the potential to limit our ability to dispatch the units at maximum output at peak times on the network, which could result in a loss of both energy and capacity market revenue.

We understand that the Public Utilities Office (PUO) is committed to implementing fully constrained network access from 2022. We are supportive of the PUO providing transitional assistance measures to compensate incumbent generators for any financial losses that may arise from the implementation of constrained network access.

This sets an important precedent for implementing future network and wholesale market changes. Providing transitional assistance to both investors and debt providers of long-lived generation assets gives some comfort that the WA Government will provide financial compensation in the future when considering fundamental or substantive changes in network and wholesale market arrangements. This helps to address potential "sovereign risks" that can arise from reform processes and will provide a signal to new investors in dispatchable generation to continue to develop projects in WA; which will be important in ensuring that WA's electricity supply is reliable and secure as the states generation mix changes overtime (e.g. higher penetration of intermittent plant in the SWIS).

## 3.0 PUO's Proposed Approach to implementing constrained access

The PUO's approach involves the creation of financial rights for incumbent generators. This involves converting the right to physically transmit energy across the network on an unconstrained basis to a financial right. It is suggested that these financial rights would be grandfathered, retaining effect until a defined trigger point (discussed later in this paper).

A scheme would be established to provide this assistance (the Scheme). While we acknowledge that the scheme is in the early stages of development and will be subject to further industry consultation, we make the following points.

- Tesla is happy to register for the Scheme and disclose its access contracts to parties responsible for administering the Scheme (subject to keeping the information strictly confidential).
- Tesla would agree to a set of terms and conditions for the Scheme, subject to review by Tesla, after considering expert and independent legal and energy market advice. In our view, the terms and conditions for the Scheme should be comprehensive and consistently applied to all generators participating in the Scheme to ensure equity and fairness for all participants.
- Network access contracts are likely to expire well before the end of a generator's economic plant life. For example, the Tesla units are likely to continue in service until 2035 to 2040. Transitional assistance should not be based on the term of the Electricity Transfer Access Contract (ETAC) but should be based on the likely retirement date for the plant. The initial investment decision to finance and develop in the four Tesla units were

based on firm and unconstrained access to the WP grid for the plant's life; not for the term of the ETAC.

#### 4.0 Managing Transitional Assistance

We appreciate that the quantum of transitional assistance would be based initially on the individual generator's results under the EY market modelling that has been undertaken by EY and commissioned by the PUO.

The financial impact of constrained network access is dependent on the future generation mix in the SWIS which is highly uncertain. Tesla will be required to commission its own market modelling to independently verify the EY modelling results and consider alternative scenarios that could emerge over the next 20 years.

Tesla is aware that the PUO will have one-on-one meetings with affected parties and looks forward to engaging in those discussions. Importantly for us, we need to understand how transitional assistance for implementing constrained access will interplay with proposed capacity market reforms. That includes the concept of "capacity priorities" for incumbent generators that was outlined in an earlier discussion paper. For example, does the implementation of "capacity priorities" reduce transitional assistance provided to affected generators under the scheme?