

Ref: SHB

05 February 2016

Mr Alex Kroon  
A/Principal Policy Officer  
Markets and Regulation Division  
Public Utilities Office, Dept. of Finance  
Locked Bag 11  
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Dear Mr Kroon

**RE: ATCO Australia submission on amendment to Electricity Industry Act 2004: Removal of electricity generation licensing**

### **Background and context**

ATCO Australia submits this paper in response to the Public Utilities Office's (PUO) consultation paper on the proposed *Amendment to Electricity Act 2004: Removal of electricity generation licensing*.

We understand that the proposed amendment will remove section 7(1) from the *Electricity Industry Act 2004* (the Act), which requires persons who construct or operate electricity generating works to hold a licence. As discussed in the PUO's consultation paper, the proposed benefits of removing this requirement are:

- removing unwarranted obligations on electricity generators; and
- potentially reducing licensing costs of the Economic Regulatory Authority (ERA) and making total contributions collected from each group of remaining licensees more aligned with the costs incurred by the ERA in relation to that type of licence.<sup>1</sup>

We also understand that the scope of this amendment is limited to the removal of the specific generating licence requirements, and that other commercial and regulatory arrangements already in place to manage the operation of generating works (such as Technical Rules and Electricity Transfer Access Contracts) will remain.

### **Our position**

ATCO Australia agrees in principle with the proposal to remove section 7(1) from the Act. As an energy infrastructure owner and power generator in WA, we encourage the removal of any unnecessary regulation or administrative requirement that does not benefit energy users and consumers.

We consider that lifting the requirement to hold a generating licence will significantly reduce compliance costs across the electricity industry, and should therefore have a downward impact on prices to consumers. For example, ATCO Australia's Karratha Power Station in the Pilbara region of WA incurred \$37,403<sup>2</sup> in generation licensing and compliance costs during 2014, including associated administrative and external independent audit expenses. Given ATCO Australia has less generation plant than many other WA-based generators; the compliance costs incurred by larger electricity generators are likely to be substantially higher.

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<sup>1</sup> PUO, *Amendment to Electricity Industry Act 2004: Removal of electricity generation licensing* – Consultation Paper, December 2015, page 1.

<sup>2</sup> \$3,500 licence fee and \$33,903 for compliance costs.

We believe these costs could be avoided without detriment to the quality of service provided, meaning this expenditure could be directed into promoting efficient investment in, and efficient operation and use of electricity services for the long term interests of consumers of electricity, consistent with the National Electricity Objective (NEO) and the (WA) Access Code objective. We also consider that the various legislative instruments that obligate generators to comply with Western Power's and Horizon Power's Technical Rules, for example the Access Code and Access Contracts, provide sufficient arrangements to maintain the integrity of electricity generation in Western Australia. Therefore the requirement to hold a licence is an onerous obligation.

With regard to the benefits of removing the generation licence compliance requirements, we support the principle that the ERA's licence costs should be collected from the remaining licensees. However, we recommend that the energy sector and electricity consumers would benefit from greater transparency of the ERA's licensing costs. In particular, it would be beneficial to all industry participants and consumers to understand how the electricity licensing standing charge is collected, and how the ERA allocates these fees to its activities.

Section 2.4 of the PUO's consultation paper states that the ERA has advised the PUO that it estimates the 2015-16 standing charge for generation licensees will be \$317,000 (25 per cent of the Authority's total electricity licensing standing charge). While we accept that removing the requirement to pay generation licence charges will not necessarily reduce the ERA's electricity licensing costs by 25 per cent, we expect there to be a significant reduction in the ERA's overall costs given the burden of administering this regulation will have been lifted.

In the interest of transparency, ATCO Australia recommends that as part of this review the ERA defines and publishes the magnitude of the savings it expects to achieve as a result of no longer administering the generation licences. Further, as part of ongoing reporting requirements we recommend the ERA provides an annual breakdown of how the standing charge for the remaining licence obligations (transmission, distribution and retail), is calculated, and the activities the ERA would undertake using this expenditure.

Given the ERA's costs are funded by the energy industry, this level of transparency would help identify further potential efficiencies and avoidable costs in the electricity licensing arrangements, which may be passed on to end users and consumers. This principle of greater transparency and certainty of regulatory costs could also be applied to other ERA fees and duties consistent with regulatory best practice.

We consider it is in the best interest of electricity consumers to provide visibility of costs across the end-to-end energy supply chain, as this will help maintain downward pressure on energy prices. Further, giving network operators and retailers greater visibility of the ERA's forward-looking costs would allow for more accurate expenditure forecasting and promote efficient investment in line with the NEO.

Sincerely,

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