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4 February 2016

Alex Kroon

Markets and Regulation Division

Public Utilities Office, Department of Finance

By email to [puosubmissions@finance.wa.com.au](mailto:puosubmissions@finance.wa.com.au)

Dear Alex

***Proposed Amendment to Electricity Industry Act 2004: Removal of Electricity Generation Licensing***

Merredin Energy owns a peaking gas turbine power station located near the town of Merredin. This station was brought into service under the auspices of Electricity generation Licence EGL 25 which commenced on 22 July 2012. During that time the station has been through one Licence Performance Audit and Asset Management System Review.

As noted in the Consultation Paper the cost of undertaking the Audit and Review is significant especially the internal costs associated with gathering the required data. The time interval for the Merredin's next Audit and Review has been set at 36 months suggesting that the results were considered by the Economic Regulation Authority to be satisfactory. We note that the time interval for the majority of generators has been pushed out beyond the minimum two year interval indicating that the overall level of compliance is high.

Merredin Energy's experience is that while we are alert to, and are responsive to, the requirements of the generation licence there are other drivers that have substantially greater impact on our behaviour. Compliance with the licence is essentially a spin-off from our overall operating practices.

One of the major performance drivers, as noted in the Paper, is the requirement to comply with Western Power's network access contract including the Technical Rules both at the time of connection and during continued operation. Merredin Energy has worked closely with Western Power to ensure compliance at a level which is well beyond what is required in the Licence.

The second key driver is that the Merredin power station is funded through project finance arrangements and our financiers take a very close interest in our operations. We are required to report to them on a regular basis with details of all relevant technical as well as financial aspects of operation plus provide immediate advice of any out-of-course events. This provides continuous monitoring of the generator's financial health whereas the Licence provides only a once-off check through the Audit and Review process which, as noted in the Consultation Paper, is being undertaken only every few years.

Compliance with the Market Rules is the third major driver to ensure high technical standards are maintained. The station's reserve capacity obligation must be verified twice each year in a full power test and the system of reserve capacity refunds places a very strong financial incentive for generators to undertake adequate maintenance to ensure high plant availability. The tailoring of the refunds encourages generators to maximise availability at those times when the power system is most likely to need the station's output.

In our particular case there is a further layer of performance monitoring. Operations and maintenance is contracted out by a third party and the contract requires regular reports from this operator including details of compliance with all necessary statutory obligations. The operator is specifically required to undertake its work in accordance with Good Electrical Industry Practice. Through this contract Merredin Energy is essentially undertaking the role that is taken by the ERA through the licence but on a more regular basis.

The main purpose of the licence is to ensure that a generator has the technical capability and financial strength to ensure that the power station can be built as planned and then operated efficiently for its planned lifetime. Merredin Energy agrees with the position put forward in the Consultation Paper that *"there are sufficient regulatory and commercial arrangements in place to effectively manage the operation of generating works, without the need to licence generators"*. We also agree with the point raised by other electricity market participants that *"the cost of complying with a generation licence outweighs the benefits of being licensed"*.

In summary, Merredin Energy supports the proposed amendment to remove the requirement for Generation Licensing from the Electricity Industry Act.

Yours faithfully

John Delicato  
General Manager