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Alex Kroon

Markets and Regulation Division

Public Utilities Office, Department of Finance

Albert Facey House

469 Wellington Street

Perth WA 6000

Dear Alex

Repeal of Generation Licensing

Thank you for the opportunity to make a submission in respect to the consultation on the proposal to amend the Electricity Industry Act 2004 to remove the requirement for electricity generators to be licensed. Western Energy, which is a wholly owned subsidiary of Perth Energy, holds electricity license EGL 19 for its Kwinana Swift power station. This was granted on 15 September 2008 and currently is scheduled to expire in September 2038.

Perth 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"*.

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. It is Perth Energy's position that there are sufficient other mechanisms in place to ensure this without requiring a licence.

Technical capabilities

As noted in the Consultation Paper all generators in the South West Interconnected System are required to have an access contract with Western Power. This, in turn, requires compliance with the Technical Rules both at the time of connection and during continued operation. It is Perth Energy's experience that Western Power is diligent in requiring generators to demonstrate compliance. Licensing does not add to the rigour of this arrangement.

The Consultation Paper notes that generators are also required to comply with the Market Rules including that reserve capacity must be verified twice each year. In addition to this the system of reserve capacity refunds places a very strong incentive for generators to undertake adequate maintenance to ensure high plant availability. These refunds are tailored to encourage generators to maximise availability at those times when the electricity demand on the system is expected to be highest.

A third major driver is the financing arrangements that non-government generators will generally have in place. Providers of project finance require regular reporting of the operation of any power station and they carefully monitor the short and long term performance. Failure to comply with statutory regulations, or any significant deviation from the initial financial and performance assumptions, has the potential to place the generator in breach of their contract. As such, compliance with the financier's requirements is a very strong incentive for appropriate technical behaviour.

The Generation Licence requirement for a regular review of the Asset Management Plan is positive but this is covered by the requirement of the Access Contract to operate with "Good Electricity Industry Practice". Following its second audit and review, the period until the next review for Kwinana Swift has been set by the ERA at five years. However, management plans to undertake reviews at more frequent intervals to ensure that our good performance is maintained.

Financial Capabilities

As noted above, most non-government generators will have secured project financing from an external financier who will closely monitor all aspects of performance. Even corporate financing will be subject to similar onerous compliance requirements. Finance arrangements will have various benchmarks which, if breached, will progressively draw the financier into the operations. This provides continuous monitoring of the generator's financial health whereas the Generation 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 two to five years.

It should also be noted that if a generator experiences financial difficulty it does not necessarily follow that the power station will cease operation. It is more likely that the station would be sold, or that the financier would step in, and that operation would continue.

Western Energy experience

There is a significant cost in gathering together the information to make the initial application for a Generation Licence. While some of this would be spent anyway in developing appropriate management systems there are additional costs. The regular Audit and Review process requires not only the retention of an external consultant but considerable internal management time. Again, some of this, though not all, may be expended anyway by a company following Good Industry Practice.

The external nature of the audit also tends to force companies to focus on meeting the various asset management factors set out by the ERA whereas an internal audit will tend to address issues that are specific to the power station and its stage of development. For example, the ERA requires the Asset Management System to address asset planning, acquisition and disposal which are not relevant for Kwinana Swift. It is more pertinent for Perth Energy to consider whether the current maintenance systems and practices are appropriate for a station that is moving into the second quarter of its planned life. Having flexibility to target O&M resources where the power station most requires would improve reliability.

Summary

Overall Perth Energy supports the approach taken in the Consultation Paper in that the issues addressed through the Generation Licence are adequately covered through other mechanisms. There are costs associated with the licence that are beyond the expenditures associated with Good Industry Practice and these do not materially benefit the electricity system. The main point we would add to the Consultation Paper is the substantial role of project financiers in monitoring the financial health of the generator and the technical performance of the power station.

Perth Energy supports the proposed amendment to remove the requirement for Generation Licensing from the Electricity Industry Act.

Yours faithfully



Ky Cao

Managing Director