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Mr Simon Middleton
Project Director, Electricity Market Review
Department of Finance
1st Floor, Albert Facey House
469 Wellington Street
Perth WA 6000

Dear Sir,

RE: Proposed reforms to the Reserve Capacity Mechanism

A member of the BHP Billiton group, Nickel West is a fully integrated nickel business comprising mines, concentrators, a smelter and a refinery all located in Western Australia.

Nickel West has the capacity to produce around 100,000 tonnes of nickel each year, employs more than 2,000 employees and contractors, and provides significant benefits to the Western Australian economy and to the communities in which it operates.

Nickel West's Kalgoorlie operation includes a complex energy generation facility, registered as an intermittent load, with approximately 80MW of generation capacity and loads of approximately 65MW. This includes power distribution to several customers operating gold and nickel mines, serviced via a private network. The Kalgoorlie facility has historically operated both as a significant generator and a significant load and has been active in engaging stakeholders in the region seeking novel solutions to capacity constraints.

Nickel West also operates a facility in Kwinana which is a 14MW load and a demand-side management (DSM) participant.

Reserve Capacity Mechanism (RCM) auctions should support removal of constraints

Nickel West is supportive of utilising transparent market processes such as auctions to reduce excess capacity and deliver efficient, least cost solutions to meet demand.

Whilst the South West Interconnected System (SWIS) as a whole operates with excess capacity, there is currently a market imbalance in the Kalgoorlie area with existing capacity unable to meet demand. The existing market structures do not provide an efficient pathway for existing loads to connect, nor do they sufficiently incentivise additional capacity to meet future market demand. This inhibits market forces achieving efficient outcomes.

The current solution to bring capacity to market, utilising the Competing Applications Group (CAG) process, has been too slow for business decision making cycles typical for new loads in the region, particularly in the mining sector. The CAG process also lacks a transparent pricing mechanism and has had the unintended consequence of complicating potential arrangements between willing buyers and sellers in the region.

Recommendation 1 – Nickel West recommends that the proposed capacity auctions be performed at regional nodes to allow true capacity price discovery in constrained areas.

Recommendation 2 – Nickel West recommends that Kalgoorlie be used as a pilot to further develop the auction processes and support the removal of local capacity constraints in a timely fashion.

Harmonisation of DSM and intermittent loads

Nickel West does not oppose the need for all participants in each capacity auction to face equivalent quality (availability and communications) requirements to ensure the network operator has access to responsive capacity.

Intermittent loads generally have sophisticated operating systems that can be used to meet these quality standards, however under the current market rules they are not able to participate in DSM programs and provide high quality load shedding to the market.

Recommendation 3 – Nickel West recommends that the harmonisation process allow for intermittent loads to provide DSM capacity into auctions.

Additional competition in Ancillary Services

Providers of high quality DSM capacity will also be likely to be able to provide ancillary services to the market with these assets. Enabling additional participants in the Load Following Ancillary Services (LFAS) market has the potential to reduce prices and increase geographical coverage. This will assist in supporting a network that will see increasing investment in intermittent generation, with geographically localised fluctuations, in the future.

Excluding large scale load participants, with on-site generation, from the LFAS down market may have been unintentionally overlooked at the time of drafting the market rules. These participants could start at a low or zero set point and move to accept a net import, providing an LFAS down service to the network and introducing greater competition.

Recommendation 5 – Nickel West recommends that the market rules be amended to enable additional participants in the LFAS down market, starting from a low or zero set point and accepting an import position.

Recommendation 6 – Nickel West recommends that the LFAS market allow for ancillary service provision at a nodal level to incentivise LFAS where it will add value.

We welcome the opportunity to receive additional information or be provided the opportunity to discuss the issues raised in the submission.

Yours faithfully,

Matthew Geers
Principal Energy & Utilities
BHP Billiton Nickel West