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Energy Transformation Implementation Unit
David Malcolm Justice Centre
28 Barrack Street
Perth WA 6000

Submitted via email: energytransformation@energy.wa.gov.au.

PROPOSED CHANGES TO THE ELECTRICITY NETWORKS ACCESS CODE

Alinta Energy appreciates the opportunity to provide feedback on proposed changes to the Electricity Networks Access Code.

Alinta Energy broadly supports the intent of the reforms to:
- increase opportunities for new technologies;
- improve the efficiency of Western Power's network and pricing; and
- streamline the access arrangement process.

However, Alinta Energy raises the following issues and suggested solutions for ETIU's further consideration.

Alternative options and the potential for perverse market outcomes.

While Alinta Energy supports reforms to facilitate "alternative options" being deployed to allay network issues, where efficient; it is concerned that deploying alternative options in isolation of the WEM may have perverse consequences.

For example, procuring flexible loads to avoid network issues – i.e., paying large loads to consume power during low load periods – could distort electricity prices and keep otherwise uneconomic and redundant generation capacity from exiting the market, undermining long-term efficiency.

Additionally, the ramping of these loads to address network issues may cause frequency regulation issues and increase Essential System Services requirements. In this case, the alternative option may be a false economy, shifting rather than reducing costs.

To avoid these issues Alinta Energy suggests that the procurement and dispatch of alternative options should be integrated with the WEM. This would prevent alternative options, including flexible loads, from being deployed regardless of their impacts to the SWIS and its long-term efficiency. While Alinta recognises the proposed changes to the NFIT aim to weigh the potential market impacts of network investment decisions; it notes that many alternative options may be beneath the NFIT threshold but still have the potential to significantly impact WEM participants.

To integrate "alternative options" with the WEM, Alinta Energy suggests that services sought

by Western Power be developed via a reform process incorporating AEMO and other key industry stakeholders, like the current process for designing the new Essential System Services markets. This process involves ETIU, AEMO, Western Power and industry working together to design markets for services that are co-optimised with the other components of the WEM and thereby avoid perverse outcomes. Alinta Energy considers that the process for developing new network services should be no different.

Procurement of network services directly from customers

Alinta Energy is concerned that the procurement of network services directly from customers may result in inefficient outcomes for three reasons.

Firstly, retailers and some generators are likely to have lower costs to serve compared to customers. Consider a network operator seeking to procure flexible load. If the network contracted with the customer, the price the network would pay the customer to consume electricity would need to cover the cost of the margin the customer pays to its retailer. By contrast, a retailer would have access to the wholesale market and a broader portfolio; and could therefore offer a lower marginal cost. Many generators may also be able to curtail their output more cheaply than customers' retail rates.

Secondly, retailers price their contracts and trade in the WEM based on their customers' load profiles and consumption behaviour. Procuring network services directly from customers may significantly alter customers' load patterns without allowing the retailer to adapt their contracts or wholesale strategies, undermining price efficiency.

Thirdly, optimising the provision of network services with energy consumption and generation can include complex risks and trade-offs. As highlighted by KPMG's *Assessment of Supporting Frameworks Report for the AEC*,[1] retail customers may not be adequately equipped to solve this co-optimisation problem. Alinta Energy suggests that wholesale market participants with access to trading systems and broader portfolios would have greater ability coordinate the provision of network services with their participation in the WEM.

For these reasons, Alinta Energy suggests that the Access Code be reformed to limit the procurement of network services directly from retail customers; and encourage the procurement of network services in coordination with WEM participants.

Supporting competition in emerging markets for network services

Alinta Energy considers that a network operator may be incentivised to own non-network assets, including storage, rather than procure network services from the market competitively. Ownership would allow the asset to be included in the asset base and generate a return. Whereas costs associated with contracting the services would be considered operational expenditure and not generate a rate of return.

Additionally, as an emerging market, there may also be a significant first mover advantage in a network operator designing and procuring its own "alternative options" internally. This may create a barrier to entry.

To avoid these risks, Alinta Energy suggests that ETIU consider implementing further reforms to support the competitiveness of the market for "alternative options". For example, a target for the level of "alternative options" to be procured from the private sector could be used to improve investor confidence and help establish the market in its early years. Additionally, Alinta Energy recommends that the Access Code objective to "promote competition in markets upstream and downstream of the networks" be retained. Finally, Alinta Energy recommends that the Access Code include an explicit requirement for the least cost option to be procured.

[1] Assessment of Supporting Frameworks Report for the AEC (June 2017)

Priority Projects

While Alinta supports the objectives of the WOSP to identify the most cost effective network and generation investment decisions from a whole of system perspective, and commends the work completed so far; it is concerned that there is no supporting regulation to ensure the WOSP assesses potential expenditure with the same rigour and independence as the ERA and the NFIT.

Consequently, Alinta Energy does not support the WOSP being able to substitute for the main elements of the NFIT. Instead, Alinta Energy suggests that the ERA retain the unique right to waive the NFIT but be permitted to consider evidence from the WOSP in making its decision.

Ringfencing participation in contestable markets and "multi-function assets"

Alinta Energy recommends that the Access Code introduce a ringfencing mechanism to regulate the use of "multi-function assets" and the network operator's participation in contestable markets.

As noted by EPWA's *Regulatory framework for the Pilbara electricity networks: Light handed access regime – Detailed Design Consultation paper*, where a network operator also operates in a related contestable market there are risks that:

1) Costs are shifted from the contestable market to the regulated network, increasing the price for regulated services and giving the network operator unfair cost advantage in the contestable market.

2) The network operator uses its control of the regulated infrastructure to give it an advantage in the contestable market. This may include "using technical matters to suppress access in the contestable market, imposing unnecessary costs on competitors, or misusing confidential information…" [2]

Alinta Energy suggests that the Access Code establish a ringfencing regime to avoid these risks materialising as Western Power is incentivised to earn unregulated revenue in contestable markets with "multi-function assets." Such a regime has been established in jurisdictions regulated by the AER and an effective ring-fencing guideline and compliance framework has been in force since 2018. The concerns discussed above could be ameliorated by the adoption of a similar approach in the Access Code. The application of ring-fencing principles would build confidence in markets for contestable services and provide for a level playing field that would ultimately benefit consumers through choice and efficient pricing of services.

Demand management innovation allowance mechanism

Alinta Energy recommends further regulations to the proposed "demand management innovation allowance" to ensure that the expenditure is cost-effective for customers.

Alinta Energy suggests that the allowance should only be granted where the ERA reasonably considers the proposed DMIA expenditure may decrease costs for customers over the long-term.

[2] P. 50 *Regulatory framework for the Pilbara electricity networks: Light handed access regime – Detailed Design Consultation paper* (March 2019)

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this in more detail, please contact me