



Mr Jai Thomas
Coordinator of Energy
Via email to: jai.thomas@dmirs.wa.gov.au

Dear Jai

ADVICE TO THE COORDINATOR OF ENERGY ON THE INTEGRATED LNG NETWORK PNR RULE CHANGE PROPOSAL

You have sought consultation with the Pilbara Advisory Committee (**PAC**) on the rule change proposal from Woodside Energy submitted under the standard rule change process to amend several existing provisions, and insert several new provisions, in the Pilbara Network Rules (**PNR**). The rule change proposal is referred to as the Integrated Liquefied Natural Gas (**LNG**) Systems Rule Change proposal (**the proposal**) and was submitted on 19 July 2022.

The proposal was considered at the PAC meeting held on 3 August 2022. The PAC had reviewed the *pre* rule change proposal at its meeting on 4 May 2022 and provided feedback to Woodside Energy. The PAC notes that Woodside has revised the proposal after receiving feedback from several PAC members and has now submitted a formal rule change proposal.

Why rule changes are required – proponents view

After reviewing the proposal and through discussions with Woodside Energy, the PAC understands that the proposal aims to facilitate the connection of the Pluto Facility to the North West Interconnected System (**NWIS**) by exempting the Pluto Facility (including gas turbine generators and large industrial loads) from certain system operation directions and the Harmonised Technical Rules (**HTR**).

The exemptions are required so that Woodside Energy can retain operational control of the Pluto generating units, and avoid the cost and delays associated with undertaking upgrades that would be required for the Pluto Facility to comply with the HTR behind the interconnection point.¹

The proposal is not intended to remove the obligation for the Pluto Facility to comply with the HTR and PNR at the interconnection point. Connection facilities are to be designed in a way that corrects for any technical non-compliance of facilities (including Pluto's generation facility) behind the interconnection point (and its success in so doing will ultimately be adjudicated by the ISO when it decides whether permit the connection to proceed).² Woodside Energy considers that expenditure to ensure compliance behind the interconnection point would be unnecessary.

¹ Rule change proposal, p. 6.

² Rule change proposal, p. 7.

Why the rule changes should be adopted

Woodside Energy considers these exemptions are reasonable because:

- The Facility was designed before the implementation of the reforms on the basis that it would need to be self-sufficient and there was no interconnected grid available at the time.
- There are other exceptions allowed in the PNR where the circumstances of certain resource industry operators do not align well with the rules (for example, to preserve operational independence there are other 'excluded networks' that are treated as 'facilities' rather than 'networks' for the purpose of the PNR).

The rule change proposal

Woodside is proposing a new category of network: an 'integrated LNG network' to mirror the concept of an 'integrated mining network' with certain additional changes not currently included in the 'integrated mining network' category to reflect the unique features of the Pluto Facility. The key differences are:

- The purpose does not include essential system services because the Pluto Facility would not export electricity into the NWIS except in a contingency.
- Compliance with HTR is limited to the interconnection point³ and excludes the gas turbine generators and large industrial loads within the facility behind the interconnection point for the life of the facility.
- The category is geographically confined so that it would not apply to any expansion.
- It must be an exit only service.
- It must be designed to be able to be disconnected at any time for any reason.

In addition, there are provisions to ensure that an ISO direction cannot be given in a form that would interfere with the operation of the integrated LNG system behind the interconnection point. Directions would be limited to reducing withdrawals, reducing injections (which would only occur if there is a serious equipment failure) and to disconnect the system from the NWIS. The power to disconnect (at any time for any reason subject to giving as much notice as reasonably practicable in the circumstances) will be also provided to the owner of the integrated LNG system, the ISO and the relevant registered NSP.

The proposal also includes an amendment so that a related NSP is treated as a single NSP for purposes of ISO fee calculation.

Woodside considers that a new category is required because the Pluto Facility, with its current generation capacity of 140MW, cannot be considered an excluded network as its generation facilities exceed the 10 MW threshold allowed for an excluded network and the integrated mining category does not provide the relief from the HTR and the required limitations on the ISO directions. More specific exemptions from the HTR (that might be granted under rule 64 of the PNR) are not considered to be sufficiently certain and durable (because they are granted on a temporary, conditional, or transitional basis).

³ Noting that the proposed solar farm will comply with the HTR in full.

Woodside considers that the issues that the Pluto Facility has under the PNR are likely to exist for other LNG integrated facilities so the proposal to introduce a new category of network will have broader application (and would be desirable) to other LNG facilities and not just the Pluto Facility. However, the rule change defines an 'integrated LNG system' by reference to the Pluto Facility so application to other facilities would require a further rule change.

Advice from the PAC

The PAC conditionally supports the Proposal subject to ensuring that the form of the proposal will not open the gates for additional bespoke categories of connection and being satisfied that the impact of the connection on the NWIS and other connected parties will not put at risk the reliability, safety and security of any interconnected Pilbara system. The PAC recognises that this latter issue is subject to the technical assessment and modelling undertaken by the ISO in the access and connection process. The PAC did not discuss the detailed drafting of the rule change.

Further elaboration on this conditional support is outlined below:

- The PAC agrees that connecting the Pluto Facility to the NWIS and facilitating decarbonisation via connection of the proposed solar farm could be consistent with the matters in Regulation 4 of the *Electricity Industry (Pilbara Networks) Regulations 2021* to which the Coordinator is to have regard to when applying the Pilbara Electricity Objective (PEO) in that the connection significantly increases the generation capacity connected to the NWIS, supports investment in the region, and increases renewable energy generation and use.
- Some members of PAC were concerned that creating another new category for the PNR with additional derogations and exemptions is not good regulatory practice as it leads to the potential for individual participants to seek their own market rules. This would be an undesirable precedent for future interconnections and may not be consistent with the objectives of the Pilbara reforms, which was, among other things, to harmonise arrangements where practicable.
- The PAC questioned whether connecting the Pluto facility with the proposed exemptions from the PNR and the HTR would meet the PEO, specifically in relation to the "the reliability, safety and security of any interconnected Pilbara system", noting that this would be subject to the technical assessment and modelling undertaken by the ISO in the access and connection process. These concerns relate to the technical impact of the connection and (disconnection) on:
 - The reliability and security of the NWIS or any other connected facility;
 - The effectiveness of the connection facilities to correct any non-compliance beyond the connection point; and
 - The ability of the ISO to perform its role due to the proposed constraints on its direction powers, particularly if it is unable to direct the facility that contributes to a disturbance.
- A particular concern was raised regarding the limitation on the ISO's ability to direct a facility that may not only dilute the effectiveness of any remediation but also drive the ISO to rely more heavily on directing other facilities, which may lead to a disproportionate loss of autonomy and unfavourable impact on other facilities. This would not be consistent with the "efficient operation and use of, services of Pilbara networks for the long term interest of consumers".

- The PAC is unable to comment on the expected costs and benefits of the proposal because the costs of implementing the rule change are not provided.

In summary, the rule change could be supported if it:

- Is of a form that does not set a precedent where future connections are generally able to pursue bespoke arrangements;
- Can be demonstrated to not compromise the reliability, safety and security of the NWIS and any interconnected Pilbara system; and
- Does not hinder the ISO in its effective operation of the NWIS.

PAC supported the establishment of a technical working group with the objective of assisting the PAC form an informed view regarding the technical and complex issues associated with the exemptions from the HTR proposed in the rule change and the ability of the ISO to perform its role. Woodside Energy agreed to provide information to the working group against each of the requirements of the HTRs and identify any further work required to assess compliance required for system security and reliability and the impact on the system and other connections.

It is recommended that the working group be chaired by the ISO and the ISO advise on the composition and terms of reference of the working group to be agreed with the PAC and established as soon as practicable. The working group will then report back to the PAC which may then provide further advice to the Coordinator.

PAC notes that ISO is separately assessing the impact of the connection, and the effectiveness of the proposed approach to limiting compliance to the connection point (rather than the facility) on maintaining reliability and security of supply for interconnected Pilbara networks.

It is likely that a definitive response to the rule change proposal from stakeholders may not be possible before there is clarity on the technical impact of the connection and exemption from the HTR in the manner proposed by Woodside. To this end, the PAC encourages the Coordinator to be satisfied that the technical issues can be resolved before the rule change can be assessed adequately.

The PAC notes that this is the first rule change proposal under the PNR and appreciates Woodside Energy's efforts to consult individually with stakeholders and some members of the PAC (as well as the PAC) prior to the rule change being formally submitted. However, we consider that future consultation processes on rule changes can be improved by broadening consultation to include all customers, large and small.

The PAC members also note that this advice does not represent the views of the organisations of the members of the PAC. Each organisation has the opportunity, and most will, provide a direct submission to the process providing its organisation's views on the rule change.

Yours sincerely

Sally McMahon
INDEPENDENT CHAIR

29 August 2022