



## Pilbara Networks Rule Change Proposal Form

Rule change proposal ID: PRC\_2023\_01

Date received: 14 March 2023

### Change requested by:

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<b>Date submitted:</b>	14 March 2023
<b>Proposed urgency:</b>	Standard rule change process
<b>Rule change proposal title:</b>	<i>Various Pilbara ISO Functions (Access and connection costs; ESS procurement; CPC measures)</i>
<b>Pilbara Networks Rule(s) affected</b>	Subchapter 9.2, Rule 244 and A4.73(b)

### Introduction

Clause A2.5.1 of the Pilbara Networks Rules provides that any person may make a rule change proposal by completing a rule change proposal form and submitting it to the Coordinator of Energy (**Coordinator**).

This rule change proposal can be sent by:

Email to: [energymarkets@energy.wa.gov.au](mailto:energymarkets@energy.wa.gov.au)

Post to: Coordinator of Energy  
Attn: Director, Wholesale Markets  
C/o: Energy Policy WA  
Locked Bag 11, Cloisters Square  
PERTH WA 6850

The Coordinator will assess the proposal and will notify you within 5 business days of receiving this form whether the rule change proposal will be further progressed.

All of the fields below must be completed for the proposal to be progressed, and the proposal must:

- provide any proposed specific changes to particular Pilbara Networks Rules; and
- describe how the proposed rule change would allow the Pilbara Networks Rules to better

address the Pilbara electricity objective.

The Pilbara electricity objective, as defined in section 119(2) of the *Electricity Industry Act 2004*, is to promote efficient investment in, and efficient operation and use of, services of Pilbara networks for the long-term interests of consumers of electricity in the Pilbara region in relation to —:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of any interconnected Pilbara system.

Regulation 4 of the *Electricity Industry (Pilbara Networks) Regulations 2021* sets out matters to which the Coordinator must have regard when applying this objective.

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## Details of the proposed rule change

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### Describe the concern with the existing Pilbara Networks Rules that is to be addressed by the proposed rule change:

1. In this document the respective proposals are referred to throughout as simply the **Proposal**.
2. The proposal consists of three distinct proposed changes to the Pilbara Networks Rules, which are assessed under each section of this document under the following headings:
  - Proposal A – ISO access and connection related costs
  - Proposal B – Procedure relating to essential system services under Subchapter 8.1
  - Proposal C – Reference error with regard to Pluto CPC measures

### Proposal A – ISO access and connection related costs

#### Summary: the issue and the proposed response

3. The issue to be addressed in this *rule change proposal*<sup>1</sup> concerns the Pilbara ISOCO Limited's (**ISO's**) costs of performing its access and connection related functions under Subchapter 9.2 of the *Pilbara Network Rules (PNR)*. In particular, who should pay those costs and how they ought to be recovered.
4. In summary, the *ISO's* proposal is that the costs of performing these functions should be paid by the *registered NSP* of the *network* to which the *new connection* relates on the basis of a 'user pays' type principle.
5. This will align the treatment of these costs under Subchapter 9.2 with that of the *ISO's* corresponding costs under new [Subchapter 9.3](#)<sup>2</sup>.

#### The functions

6. Subchapter 9.2 of the PNR confers a number of access and connection related functions on the *ISO*. The main functions are to:
  - a. supervise the standards applied by *network service providers* to *new connections*;
  - b. assist *access seekers* and *NSPs* with preparation and processing of *access applications* and negotiation of *network access contracts*;
  - c. provide modelling services for the preparation and processing of *access applications* and negotiation of *network access contracts*; and
  - d. be involved, where necessary, in the resolution of *connection application* related disputes.

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<sup>1</sup> In this *rule change proposal* words and expressions that are defined in the PNR appear in *italics*.

<sup>2</sup> New Subchapter 9.3, commencing on 31 March 2023 implements an alternative path for connection of eligible equipment that is non-compliant with the Harmonised Technical Rules through the establishment of one or more CPC measures (compliance at the connection point).

(rules 268 and 270(6))

7. The general form and structure of the principal operative rules of Subchapter 9.2 (rules 268 to 272) establish that the *ISO's* functions are largely performed through interactions with, and the delivery of services to, the relevant *registered NSP* that manages and facilitates the *connection application* process on behalf of the *access seeker* customer. This reflects the importance and primacy of the relationship between the *ISO* and the *registered NSPs* more generally in the overall operation of the *NWIS* and the role those *NSPs* play in ensuring that *new connections* to their networks are established in accordance with the standards required by the PNR.
8. Consistent with these arrangements, the *ISO* considers that the relevant *registered NSP* is the entity who, in the first instance, should pay the *ISO's* Subchapter 9.2 costs, with that *NSP* in turn recovering those costs from its customer, the *access seeker*. Both Horizon Power and Alinta Energy have included content in their respective user access guides that specify that applicants are liable for the *ISO's* costs associated with establishing the applicant's *new connection*.

#### Access and connection procedure

9. In accordance with rule 274, the *ISO* is preparing an *access and connection procedure* dealing with its functions under Subchapter 9.2. Once finalised, this *procedure* will outline the process, roles and responsibilities of parties involved in *connection applications* made under Subchapter 9.2.
10. Consistent with the form and structure of the rules in Subchapter 9.2 referred to in paragraph 7 above, the *ISO* intends that the *access and connection application procedure* will reflect that it is predominantly the relevant *registered NSP* with whom the *ISO* will engage, and to whom the *ISO* delivers services, when performing its *new connections* related functions under Subchapter 9.2.
11. The *ISO* also intends this *procedure* to be the place where the *ISO* provides industry and prospective *connection applicants* with guidance on the functions the *ISO* will perform, their timing and estimating the *ISO's* costs of delivering the services involved to the *registered NSP*.
12. The *ISO* understands the importance to *connection applicants* of providing guidance on estimating the *ISO's* costs as it will ultimately be those applicants or access seekers who will be required to pay them by the relevant registered *NSP*.<sup>3</sup>

#### Current position in PNR

13. The PNR are silent as to how the *ISO* should recover these costs. This creates some uncertainty as how these costs are to be recovered and, for example, whether they are to be paid by those who benefit from the *ISO's* performance of these services or through the "*ISO Fee*" mechanism.<sup>4</sup>
14. The recovery of costs through the *ISO fee* mechanism would result in applicant-specific costs being payable by, and split between, the 3 *registered NSPs* Alinta Energy, Horizon Power and Rio Tinto.
15. The *ISO* does not consider this is an appropriate outcome. Rather, these costs ought to be recovered on a user pays type basis, such that the *registered NSP* (and ultimately the connection applicant or *access seeker*) should pay the costs associated with the *connection application* for several reasons, including that:
  - a. it is not appropriate for access costs to be socialised across the *NSPs* in all cases; and
  - b. a price signal ultimately sent to *access seekers* is appropriate and gives an incentive to the making of efficient investment; and
  - c. the costs will be incurred by those who receive the benefit of the services provided by the *ISO* in performing its functions under Subchapter 9.2.
16. See also paragraph 77 under the heading **Benefits** below.

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<sup>3</sup> Both [Horizon Power](#) and [Alinta Energy](#) have included content in their respective user access guides specify that applicants are liable for the *ISO's* costs associated with establishing the applicant's new connection.

<sup>4</sup> See Subchapter 4.5 of the PNR.

17. The *ISO* will be able to separately identify its access and connection related costs and, as indicated above, would provide guidance for prospective applicants on what they can expect through the *access and connection procedure*.

### The Proposal and the CPC measures

18. Recently the *Coordinator* made amending rules<sup>5</sup> that will, when they commence,<sup>6</sup> introduce a new Subchapter 9.3 that will allow certain *connection applicants*<sup>7</sup> to seek an alternative pathway for connection of their facilities from that contained in Subchapter 9.2 by “complying at the connection point”.
19. The *ISO* has a range of connection related functions under Subchapter 9.3 that are similar in character to those in Subchapter 9.2. More specifically, the *ISO* has functions under new Subchapter 9.3 to:
- a. run a consultation process on an *access seeker’s* application to connect on the basis of compliance at the *connection point* (rule 274(9b));
  - b. endeavour to reach agreement on the *CPC measures* an applicant must put in place in order to comply at the connection point so that the relevant standards are met (rules 274C and 274E); and
  - c. reassess whether the applicant’s equipment can continue to remain connected on the basis of the agreed *CPC measures* if circumstances change (rule 274K).
20. It is uncontroversial that the *ISO’s* tasks under new Subchapter 9.3 will include modelling and supervision of any *CPC measures* proposed to ensure the required standards for connection are met.
21. Subchapter 9.3 includes new rule 274J(2) that deals directly with the issue of the *ISO’s* costs associated with performing its functions under Subchapters 9.2 and 9.3 where a *connection applicant* takes the new ‘compliance at the connection point’ pathway to connection:
- “(2) A *connection applicant* giving a notice under notice under rule 274B(1) must pay the *ISO’s* costs of performing its functions under Subchapter 9.2 and Subchapter 9.3 in connection with the notice, including if it withdraws the notice under rule 274B(5) and if the *ISO* makes a declaration under rule 274K(4).”
22. The position advanced in this Proposal is consistent with the treatment of the *ISO’s* costs for the purposes of new Subchapter 9.3.

### **Proposal B – Procedure relating to essential system services under Subchapter 8.1**

#### Summary: the issue and the proposed response

23. The issue to be addressed concerns the scope of the Pilbara ISOCO Limited’s (*ISO’s*) ability under rule 244 of the Pilbara Network Rules (PNR) to develop the EBAS Procedure referred to in that rule.
24. Currently, under rule 244 the *ISO* is to develop a procedure for energy balancing and for settlement of balancing and essential system service payments (“EBAS procedure”) setting out requirements relating to Subchapter 8.2 and Subchapter 8.3. There is no reference to Subchapter 8.1 in rule 244.
25. Transitional rules in appendix 4 specifically enable the *ISO* to create an interim procedure to manage essential system services. Transitional rule A4.57(e) states:

“A4.57 Rules A4.58 to A4.60 apply to the following *procedures* –

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<sup>5</sup> See Pilbara Rule Change PRC\_2022\_01, copy available [here](#).

<sup>6</sup> The amending rules commence on 31 March 2023.

<sup>7</sup> Those having “eligible equipment” (as defined in new Subchapter 9.3).

...

- (e) an interim *procedure* to manage *essential system services*, energy balancing and settlement.”

26. From 1 July 2023, when the transition period ends, the PNR will not include an ability for the ISO to develop a procedure relating to Subchapter 8.1 or essential system services and the ISO will therefore lose the ability to manage essential system services through a procedure, including the benefit of the consultation arrangements established through the interim procedure.
27. In summary, the ISO’s proposal is that:
  - a. the scope of the ISO’s ability to make a procedure under rule 244 should extend to Subchapter 8.1, being matters relating to the specification, procurement and enablement of essential system services; and
  - b. without limiting the scope of the ISO’s ability to make a procedure in relation to Subchapter 8.1, the PNR should identify certain matters that the EBAS Procedure may address in relation to Subchapter 8.1.
28. This will ensure the ISO’s ability to manage essential system services through the interim procedure developed in accordance with clause A4.57(h) of PNR will not be altogether lost after the transition period comes to an end on 1 July 2023.

#### Proposal and interim procedure

29. The ISO has developed an interim procedure to manage essential system services in accordance with transitional rule A4.57(h).
30. Significantly, the interim procedure has been used to establish a technical consultation group with whom the ISO is able to consult on a range of matters that determine the levels of essential system services to be procured and enabled. These matters include:
  - a. determination of the amounts of regulation raise reserve and regulation lower reserve [rule 202];
  - b. identification of credible islanding scenarios [rule 205(1)];
  - c. identification of the pool of potential secondary FCESS providers for each credible island (based solely on their geographical location) [rule 205(2)];
  - d. determination of the required headroom level [rule 212(1)(a)];
  - e. deciding how to apportion headroom obligations [rule 214(4)]; and
  - f. any other technical matter relating to the technical specification of essential system services.
31. The technical consultation group is comprised of technical experts having particular experience and knowledge of the NWIS and Pilbara region more generally, and includes representatives of registered NSPs and industry consultants.
32. The technical consultation group collectively represent, from a technical perspective, the best available expertise and understanding of:
  - a. the operation of the NWIS;
  - b. the risks to the secure and reliable operation of the NWIS;
  - c. how those risks ought be assessed; and
  - d. the responses needed to satisfactorily address them,including the identification and or determination of the matters described in sub-paragraphs 30.a to 30.f.
33. In short, the technical consultation group is an invaluable resource that is currently advising the ISO in the performance of its functions under Subchapter 8.1.

### Other matters for procedure

34. It is foreseeable that as the essential system services regime for the NWIS matures, it may become desirable to address other aspects of essential system services specification, procurement and enablement in a procedure including, for example the following:
- a. forecasting: forecasting of demand and generation capacity;
  - b. risk assessment: matters relating to the ISO's assessment of risk in connection with its functions under Subchapter 8.1 (the identification of risks and evaluating their likelihood and potential impact on the NWIS); and
  - c. procurement and procurement planning: the processes by which the ISO:
    - (i) identifies the necessary levels of *essential system services* that are required to mitigate the risks identified through the risk assessment process to the standard required by the PNR;
    - (ii) develops any procurement plans specifying the quantity, duration and delivery requirements for each *essential system service* that is needed; and
    - (iii) conducts the procurement of *essential system services* (details of any tendering or alternative procurement process the *ISO* proposes to use to obtain *essential system services* in accordance with rules 200(1) and (2)); and
    - (iv) will monitor and manage the delivery of the services and their performance to ensure the required standards for provision of *essential system services* are met including, for example, by monitoring availability and responsiveness.
35. For these reasons the ISO considers that the need for the ISO to be able to manage essential system services through a procedure is clear and compelling.

### **Proposal C – Reference error with regard to Pluto CPC measures**

36. The ISO also proposes to fix a reference error in a transitional provision under sub-appendix 4.13.

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### **1. Explain the reason for the degree of urgency:**

37. The ISO submits that the rule change proposals should proceed in accordance with the standard rule change process.

### **Proposal A – ISO access and connection related costs**

#### ISO has commenced performing these functions

38. As contemplated by the transitional arrangements in sub-appendix 4.3<sup>8</sup> of the PNR, the *ISO* has already commenced performing some functions under Subchapter 9.2. In brief, the *ISO*:
- a. has the discretion to determine the extent to which it will perform its access and connection related functions throughout the transition period;
  - b. has advised *NSPs* that it can provide bespoke advice on connection applications, notwithstanding that the whole of system model is still being finalised (validated) and the draft interim *access and connection procedure* is subject to change;

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<sup>8</sup> Sub-appendix 4.3 relates to the access and connection provisions of the PNR throughout the transition period, which ends on 1 July 2023.

- c. has been, and currently is, providing such advice in relation to a number of connection applications, including that relating to Woodside’s Pluto LNG facility which will now almost certainly proceed under new Subchapter 9.3; and
  - d. the *ISO* has already incurred, and will continue to incur, levels of costs that are material relative to its budget in performing these tasks both during and beyond the transition period.<sup>9</sup>
39. It is reasonable to expect that further *connection applications* will be made in the near term, particularly once the transition period expires on 1 July 2023 when the *ISO* fully assumes all its responsibilities under Subchapter 9.2 and the *access and connection procedure* is finalised.
40. The need for this *rule change proposal* to progress in the near term is clear. The *ISO* considers it desirable that this rule change progress in a timely fashion, and preferably without extensions of time, to the extent practicable. The *ISO* notes in this respect that:
- a. the *Pilbara advisory committee* has already considered this issue, and was supportive of a rule change proposal being formulated on the basis of a ‘user pays’ principle;<sup>10</sup> and
  - b. if adopted in the form proposed below, the extent of the required amendments appear minimal.

### **Proposal B – Procedure relating to essential system services under Subchapter 8.1**

41. The *ISO* submits that this *rule change proposal* should proceed in accordance with the *standard rule change process*.
42. The *ISO* has already taken steps to prepare for the commencement of Subchapter 8.1 on 1 July 2023, including:
- a. the preparation of an interim *procedure* relating to its functions under Subchapter 8.1;
  - b. seeking the advice of a technical consultation group established through the interim *procedure* on the various matters described in sub-paragraphs 30.a to 30.f above; and
  - c. planning for the initial procurement of *essential system services*, with the procurement process itself expected to commence within the next few weeks.
43. The Proposal will enhance the capability of the *ISO* to diligently and transparently specify, procure and enable *essential system services* in accordance with Subchapter 8.1. A *procedure* developed in accordance with the Proposal will have immediate and ongoing application and will be significant in the *ISO*’s performance of one its core functions.
44. If the Proposal does not progress in a timely manner, the *ISO*’s next procurement of *essential system services* will be made more difficult.
45. The *ISO*’s obligations under the PNR (rules 202 and 203) are to determine and or procure the relevant amounts of *essential system services* needed “from time to time”. Having regard to the dynamic character of Pilbara resource industry (both in terms of who the current and future participants are and what their current and projected future energy needs and usage are) the *ISO* does not consider its initial procurement of *essential system services* will be an arrangement suitable to remain in place for the longer term.
46. It is probable that further *essential system services* evaluation and procurement will be required in the near to medium term.
47. The need for this *rule change proposal* to progress in the near term is clear. The *ISO* considers it desirable that this *rule change proposal* in a timely fashion, and preferably without extensions of time, to the extent practicable.

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<sup>9</sup> The transition period concludes on 1 July 2023, see rule 3(4) of the PNR.

<sup>10</sup> Minutes of Pilbara Advisory Committee meeting held on 3 August 2022, p10, copy available [here](#).

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2. **Provide any proposed specific changes to particular Pilbara Networks Rules:** (for clarity, please use the current wording of the rules and place a ~~strike through~~ where words are deleted and underline words added)

### Proposal A – ISO access and connection related costs

48. For reasons of simplicity and consistency, the ISO suggests the formulation of the rule change along the lines of that established in new rule 274J(2) for the ISO's Subchapter 9.3 costs. Such a rule could be established through insertion of a new rule into Subchapter 9.2 as a new rule 274A as follows:

#### 274A ISO's access and connection costs

- (1) The registered NSP of the network to which the connection application relates must pay the ISO's costs of performing its functions under Subchapter 9.2.
- (2) Rule 274A(1) does not prevent that registered NSP from recovering those costs from the relevant access seeker or connection applicant.

### Proposal B – Procedure relating to essential system services under Subchapter 8.1

49. The ISO suggests an amendment to rule 244 "EBAS Procedure" to include reference to Subchapter 8.1 (*essential system services*) and the identification of certain matters with which the *EBAS procedure* may then deal in relation to Subchapter 8.1 as follows:

"244 EBAS Procedure

- (1) The ISO must develop a procedure for essential system services, energy balancing and for settlement of balancing and *essential system service* payments ("**EBAS procedure**") setting out requirements relating to Subchapter 8.1, Subchapter 8.2 and Subchapter 8.3."
- (2) Without limiting the matters that may be the subject of the EBAS procedure, the EBAS procedure may deal with any of the following matters in relation to Subchapter 8.1:
  - (a) the establishment of a technical consultation group to advise the ISO in relation to the performance of the ISO's functions under Subchapter 8.1;
  - (b) eligibility to participate in, and the convening of, the technical consultation group referred to in rule 244(2)(a);
  - (c) any matters or things relevant to the ISO's determination of the levels of essential system services to be procured and enabled including:
    - (i) forecasts of future demand for electricity and expected future generation capacity, whether or not over any time period identified in the NCP planning horizon referred to in rule 280(1); and



- (ii) identification and assessment of risks to the reliability and security of the NWIS;
- (d) the conduct of a tender or other process by the ISO to procure essential system services; and
- (e) the ISO's monitoring and management of the delivery of, and the performance of, essential system services to ensure those services are available when needed and meet the required standards."

### Proposal C – Reference error with regard to Pluto CPC measures

50. Rule A4.73(b) should be amended to fix a reference error as follows:

A4.73. To the extent that the ISO considers that things done before the commencement of this rule A4.73 deal adequately with matters to be considered and steps to be taken under Subchapter 9.3 in connection with proposed CPC measures for the Pluto facility –

...

(b) the ISO may by published notice waive some or all of rules 274B(1), 274B(5) and 274B(3)(b) ~~274G(2)~~.

### 3. Describe how the proposed rule change would allow the Pilbara Networks Rules to better address the Pilbara electricity objective:

#### Proposal A – ISO access and connection related costs

- 51. Allocating costs on a user pays basis is generally considered to be an economically efficient cost allocation methodology. This is because it ensures that the costs of providing a service are borne by those who benefit from it, rather than being spread among all users or consumers.
- 52. This approach can provide incentives for users to make more efficient use of the service, as they are directly responsible for the costs they incur. By encouraging efficient use and investment, a user pays principle can help reduce costs, improve service quality, and increase economic efficiency.
- 53. The ISO's development and use of the *access and connection procedure* will ensure that these costs allocated fairly, that pricing mechanisms are transparent, and that *connection applicants* will be able to both reasonably estimate and exercise a level of control over these costs.

*The contribution of the Pilbara resources industry to the state's economy and the nature and scale of investment in the Pilbara resources industry:*

- 54. The 'user pays' principle embodied in the Proposal is an appropriate cost allocation method for investment of the nature and scale that will likely be seen most frequently in the Pilbara resource industry context, be they new or existing large participants making a connection application or new entrants of smaller scale.
- 55. It is also consistent with the manner in which the costs of physically establishing a connection to the relevant network are borne by the *connection applicant*. This approach:
  - a. provides an incentive for efficient investment such that, for example, the projects more likely to proceed in the Pilbara region are those most economically feasible; and

b. will assist in improving the efficiency and competitiveness of the industry as a whole.

56. These outcomes are in the interests of the Pilbara resource industry more generally, and to the State as a whole.

*The importance to the Pilbara resources industry of a secure and reliable electricity supply:*

57. The ISO's connection and access functions ensure that *connection applications*, whether for connection of new equipment or modification of an existing connection, are developed and occur in manner consistent with the standards needed to maintain and improve the safe, secure and reliable supply of electricity to all users of the NWIS.

58. Providing the ISO with clarity and certainty in its recovery of these costs will also enhance the ISO's capacity to apply appropriate levels of resourcing in a timely manner when performing its connection and access related functions. This will, in turn, contribute to ensuring the safe, reliable, and secure operation of the NWIS for the benefit of all.

*The nature of electricity supply in the Pilbara region, including whether or not regulatory approaches used outside the Pilbara region are appropriate for the region, Pilbara network users, and Pilbara networks:*

59. The regimes for connection, access and system operations in both the National Electricity Market and the WA Wholesale Electricity Market make use of a user pays approach in the allocation of the market operator's costs of supervising and facilitating connection applications.

60. This regulatory approach has already been accepted as suitable for use in the Pilbara region, through its adoption in the Coordinator of Energy's recently completed rule change mentioned above to introduce a new Subchapter 9.3 for compliance at a *connection point*.

61. As noted earlier, allocation of costs in accordance with this Proposal will result in these ISO costs being borne by those who will benefit from the services provided by the ISO in performance of its functions, rather than being spread between the three *registered NSPs* and or being passed on in turn to their customers. This should provide more targeted incentives for efficient use of the ISO's services.

*Any other matter the person or body considers relevant:*

62. It is in the interests of all NWIS participants and the improved reliability and security of the NWIS as a whole that the ISO is able to perform its access and connection related functions with full confidence and certainty in its ability to recover its costs of doing so.

63. If these ISO costs are not recovered on a user pays basis, and were instead socialised through *ISO fees*, the result would raise issues of equity and fairness that are difficult to answer, beyond perhaps a relatively simplistic assertion that since everyone benefits from the ISO's role in overseeing the connection process to preserve reliability, it is worth everyone contributing (whether directly or indirectly) to these costs. The ISO considers that this assertion is difficult to sustain in light of applications that may be made by participants of the character, sophistication, scale and resourcing of, for example, Woodside and other Pilbara resource industry participants.

## **Proposal B – Procedure relating to essential system services under Subchapter 8.1**

64. See paragraph [82] below under the heading **Benefits**.

65. As to the ISO's intended use of the *EBAS procedure* to continue the arrangements established in the interim *procedure*, the ISO will, through engaging with technical experts and stakeholders, be able to access a range of perspectives and expertise to inform its decision-making processes. This will help to ensure that the levels *essential system services* that are specified, procured and enabled are appropriate and cost-effective, and that the procurement process promotes competition and efficiency in the provision of these services.

66. In particular, a technical consultation group could help to:

- a. identify and assess risks: technical experts could provide insights into potential risks to the security and reliability of the *NWIS*, and help the *ISO* to assess the likelihood and potential impact of these risks. This will help to ensure that the levels of *essential system services* that are procured are appropriate to mitigate these risks;
  - b. inform procurement planning: technical experts could provide advice on the types and quantities of services that are required, and help the *ISO* to develop procurement plans that promote competition and efficiency in the provision of these services; and
  - c. evaluate service performance: technical experts could help to evaluate the performance of service providers, and ensure that they are delivering services that meet the contracted requirements.
67. Overall, by forming a technical consultation group, the *ISO* would be better equipped to ensure the efficient investment in, and efficient operation and use of, electricity networks in the Pilbara region which should in turn contribute to improving the reliability, safety, and security of the *NWIS* for the benefit of all users and consumers.

As to the matters in regulation 4 of the *Electricity Industry (Pilbara Networks) Regulations 2021* to which the Coordinator must have regard —

*The contribution of the Pilbara resources industry to the state's economy and the nature and scale of investment in the Pilbara resources industry:*

68. A secure and reliable electricity supply is critical to supporting the ongoing growth and development of the Pilbara resources industry, which is a significant contributor to the Western Australian economy. That industry is characterised by significant investments in large-scale mining and processing facilities, often located in remote areas, that require a reliable electricity supply.
69. The Proposal will enhance the *ISO*'s capability to see that the risks associated with the operation of *NWIS* are managed by ensuring that the levels of *essential system services* are appropriate to support the needs of the Pilbara resources industry.
70. By specifying and procuring the right levels of *essential system services*, the *ISO* can seek to minimise the costs associated with electricity supply to the Pilbara resources industry, helping to promote efficient investment in the Pilbara resources industry and its growth and development more generally.

*The importance to the Pilbara resources industry of a secure and reliable electricity supply:*

71. As noted, a secure and reliable electricity supply is of critical importance to the Pilbara resource industry. The Proposal will help the *ISO* to ensure that the levels *essential system services* procured are appropriate to maintain the secure and reliable operation of the *NWIS* supply, and to minimise the risk of disruptions to the Pilbara resources industry.

*The nature of electricity supply in the Pilbara region, including whether or not regulatory approaches used outside the Pilbara region are appropriate for the region, Pilbara network users, and Pilbara networks:*

72. The unique character of the Pilbara region and the resources industry within it has been mentioned above, see paragraph [68]. The region also has the potential for high levels of renewable energy generation to be developed. The intentions of present and future *Pilbara network users* and Pilbara resource industry participants more generally in reducing their carbon emissions, including in their electricity supply chains, strongly indicate that increasing levels of renewables can be expected in the region in the near, medium and long term.
73. The Proposal will help the *ISO* develop tailored approaches to the procurement of *essential system services* that are appropriate for these unique circumstances and is an appropriate regulatory approach for the region.

*Any other matter the person or body considers relevant:*

74. The Proposal will give the *ISO* a clear capability to engage with stakeholders and experts in availing itself of advice of those with the technical knowledge and understanding of the unique characteristics of the *NWIS* and the Pilbara region more generally.
  75. The Proposal will also assist the *ISO* in developing processes that ensure transparency and accountability in the procurement, delivery and performance of *essential system services*.
  76. This will enable stakeholders to better understand *essential system services* related processes and to provide feedback, which will contribute to ensuring that the *ISO* is meeting the needs of the *NWIS* and its users.
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#### 4. Provide any identifiable costs and benefits of the change:

##### Proposal A – ISO access and connection related costs

###### Benefits

77. The following benefits accrue through the Proposal:
  - a. it will encourage efficiency in the making of *connection applications* – through incentivising the use of the *ISO*'s services when projects are economically feasible;
  - b. it will ensure that the costs of the *ISO*'s services are borne by those who will benefit from it, rather than by all users of the system; and
  - c. it will establish consistency with the treatment of the *ISO*'s corresponding *connection application* related costs under new Subchapter 9.3. Consistency will also result in simplicity in the administration and understanding of how these costs are treated; and
  - d. it will give clarity and certainty to the *ISO* in its recovery of these costs. This will, in turn, improve the *ISO*'s capacity to perform these functions and so contribute to ensuring the safe, reliable, and secure operation of the *NWIS* for the benefit of all.

###### Costs

78. The *ISO* currently estimates that relevant costs for provision of these connection application services will typically be in the range of \$20,000 to \$40,000 but could be significantly higher, depending on the scale and complexity of the connection sought.
79. It is possible that in some contexts, connection (and connection related costs like those of the *ISO*) may be a barrier to entry for potential users, particularly small-scale users, and so act as a limit on competition and or innovation.
80. The *ISO* maintains that these costs, as a relatively small component of the connection costs payable by an applicant overall, are unlikely to be a decisive factor in cases where costs of connecting to the system may be so high that they discourage investment in new energy projects or infrastructure.
81. The *ISO*'s intention to use the *access and connection procedure* to provide guidance on connection related costs, as well as detail on when and how the *ISO* performs these functions as part of the connection process, will assist applicants in estimating and making adequate provision for those costs and aid a better understanding of the *ISO*'s role.

## Proposal B – Procedure relating to essential system services under Subchapter 8.1

### Benefits

82. Overall, a *procedure* for managing *essential system services*, including an ability for the *ISO* to call on the expertise of a technical consultation group, could bring significant benefits to the Pilbara region and to users of the *NWIS*, including better decision making, increased stakeholder engagement, better risk management, improved system reliability and security, better cost management and improved compliance:
- a. Improved decision-making: by seeking the advice of a range of stakeholders, and obtaining access to a range of technical experts, when determining the levels of *essential system services* to be procured, the *ISO* can benefit from a wide range of perspectives and expertise, which will help to ensure that the levels of *essential system services* are appropriate for the unique circumstances of the Pilbara region.
  - b. Increased stakeholder engagement: engaging with stakeholders through a technical consultation group could help to increase stakeholder awareness and understanding of the technical requirements of the Pilbara region, and to build greater trust and cooperation between stakeholders and the *ISO*. This could help to improve the overall effectiveness of the electricity system, and promote greater stakeholder support for the *ISO's* decisions.
  - c. Better risk management and improved security and reliability: Through engagement with technical experts and stakeholders, the *ISO* will be assisted in developing:
    - i) a sophisticated and comprehensive understanding of the risks to the secure and reliable operation of the *NWIS*; and
    - ii) more effective risk management strategies to address these risks, thereby contributing to improvement in the overall security and reliability of the system.
  - d. Better cost management: development of a *procedure* dealing with *essential system services* could help the *ISO* to manage *essential system services* costs more effectively, including by reducing the potential of over-procuring or under-procuring these services.
  - e. Improved compliance: a *procedure* for *essential system services* could help the *ISO* to show stakeholders how it will meet its obligations under Subchapter 8.1, and so help to ensure that the *Pilbara network users* and *Pilbara networks* are well-served and protected.

### Costs

The Proposal may involve a range of costs, including the following:

83. Administrative and resourcing costs: Developing and implementing a *procedure* will involve resourcing costs, including time, money, and staff or consultant resources. Forming a technical consultation group may involve some administrative costs, including the cost of convening meetings, and the time and effort needed to coordinate with stakeholders.
84. Implementation: implementation of a new *procedure* may involve time and effort on the part of stakeholders and participants to become familiar with it and adapt to its use.
85. Conflict of interest: Some participants have conflicts of interest that could impact their ability to provide advice as part of a technical consultation group. The interim *essential system services procedure* developed by the *ISO* has already identified and addressed this issue.
86. Time: consultative processes like that the *ISO* is engaging in with the technical consultation group under the interim *procedure* can take time, and the *ISO's* preference is for the group to reach consensus on the levels of *essential system services* needed. Nonetheless the relevant decisions will remain the prerogative of the *ISO*, which should help ensure that the process of specifying and procuring *essential system services* occurs expeditiously.

87. Overall, while there may be some costs associated with the Proposal, including the development of a *procedure* and formation of a technical consultation group, the *ISO* believes the benefits of the Proposal proceeding clearly outweigh these costs. The arrangements established through the interim *procedure* are showing that these costs are reasonable and manageable.
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