

# Community Electricity

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## Response to PUO Public Consultation

### Proposed approach to implement constrained network access

#### Standing

Community Electricity is:

- a a licensed Electricity Retailer and provider of Electricity Retail Services and Market Consultancy;
- b a member of the original Access Code Development Committee (2003 to 2004)
- c a member of the Rule Change Panel's Market Advisory Committee;
- d a member of the Economic Regulation Authority's previous Technical Rules Committees from time to time;

Further information is available at: [www.communityelectricity.net.au](http://www.communityelectricity.net.au)

#### Context

1. The instant PUO consultation paper is part of a series of consultations intended to progress reform of the SWIS electricity market to the broad objective of optimising value for money and least cost to consumers. In response, Community Electricity has lodged two comprehensive and well-researched papers which are available on the PUO website.
2. We note that the instant PUO paper presents the findings of modelling provided by EY and enjoys the patronage of the Treasury Department.

#### Inadequate business case

3. We quote from the PUO paper, our emphasis added:

"Modelling indicates that overall, the most efficient solution is fully constrained access. A key finding is that **total market payments are forecast to be \$288 million less over 50 years** in the fully constrained case than the partially constrained case. This means consumers are forecast to be better off under a fully constrained network access framework than they would be under partially constrained network access framework."

Footnote 20: "Forecast savings to consumers from lower market payments will be offset by the quantum of transitional assistance payments to generators with firm access rights."

".....the details of the transitional assistance scheme are yet to be defined and will be discussed further with market participants."

"..... transitional assistance to eligible generators in the form of a financial payment to cover the reasonable losses the generator may incur as a result of the implementation of constrained network access.."

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4. We note that the proposed saving equates to is \$5.8 million per year minus the unknown costs of the transitional assistance.
5. We quote from the ERA's media statement of 2-MAY-2018 in respect of AA4:  
  
"The ERA's draft decision sets target revenue of \$7.38 billion that Western Power can earn over the five-year period."
6. We note that this a simple average of \$1.5 billion per year for network alone; wholesale market costs of a similar amount would also be incurred. Forecasts of these cost are known to the PUO but have not been released.
7. We conclude that the "business case" for proceeding with Constrained Access is a saving of at most 0.4% assuming zero transitional assistance. More realistically, the proposed saving is perhaps half that. More realistically yet, the forecast saving is entirely dependent on accurate assumptions holding for 50 years in the face of major disruption by battery penetration and the dysfunction of federal policy for subsidising renewable energy.
8. As examples of normal forecast error, we cite:
  - i. the dysfunction of the system load forecasts in recent years is a principal cause of the WEM dysfunction that the reform seeks to remedy;
  - ii. less than 2 years ago, the PUO forecast the 2018-19 capacity price (effective from October 2018) to be around \$105,000 per MW compared to the actual value of \$138,800 per MW - nearly a third higher than the government's expectation.
9. We suggest that the reliance of the PUO "business case" for constrained access on an improvement of at most 0.4% is either preposterous or disingenuous to an extent that merits investigation by the Auditor General.
10. We challenge the PUO to specify the net market benefits of the proposal in terms of an annual percentage of the total costs and to release the 'high' and 'low' estimates that would automatically accompany a competent forecast. We also challenge the PUO to specify the impact on its business case of the abandonment of the federal National Energy Guarantee.

## The concealed agenda: Western Power's liabilities

11. We quote further from the PUO paper, where we have added emphasis and track-deleted ~~in this style~~ a claim that we wish to challenge:

"Legacy contractual arrangements mean a number of electricity generators are entitled to 'unconstrained network access', which means Western Power is required to ensure its network has sufficient capacity to transmit up to the maximum output of these generators under normal operating conditions."

"Under the proposed implementation approach, providing Western Power with a statutory immunity is necessary to eliminate Western Power's exposure to claims

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arising as a result of a purported failure to provide a level of physical access to its network in accordance with contractual obligations (or other contractual commitments) ~~due to the introduction of constrained access.~~"

"... in many cases there is actually sufficient physical capacity in the network, but the unconstrained access rights of incumbent generators mean that 'spare' network capacity is contracted out, effectively locking it up and reducing the amount of capacity available for other generators to connect."

"..... a substantial proportion of all new generation facilities connected since 2006 (regardless of fuel type) are owned by (or contracted by) one of the small group of electricity industry participants that existed at market start."  
[Synergy, perhaps? Perhaps a breach of confidentiality to name what everybody already knows?]

12. We note that when Western Power enters into an access agreement with a generator, it makes an estimate of the expected income arising under the applicable network tariff. Insofar as there is a shortfall relative to its cost of investing in the necessary network assets, Western Power requires the generator to fund that shortfall as a capital contribution. Western Power then includes the required investment in its long term capital programme, which programme is subject to government and ERA approval. The timing of investments is also subject to operational conditions.
13. On this basis, we challenge the presumption that it is new generators that have to pay all the cost of the claimed \$700 million network augmentation. We seek express confirmation of how much of that augmentation has already been funded by existing generators and what has happened to the funds collected. We suggest that the real purpose of the initiative is to tax the market to raise the funds needed to rebate unconstrained generators for Western Power not having made their contracted investments, and to rebate Synergy for seizure of its hoarded network capacity. We suggest that is the purpose of the legal immunities. It is also the absurdity of imposing a new market tax in order to "reduce costs".
14. We note that Access Contracts between Western Power and generators have evolved over the lifetime of the WEM and that the original incumbents (primarily Synergy) have materially different access rights. We speculate that the principal issue is that Synergy has legacy capacity rights that aren't being used (hoarded) and are crowding out prospective users. We note that the issue is shrouded in confidentiality and we speculate that Western Power is being permitted to reframe a problem caused by Synergy in order to obfuscate its own problem of accounting for funds that it is seeking to avoid spending. To this end, the PUO has been captured and is being shepherded to a 'solution' that involves having the market fund compensation in return for an unnecessary imposition of constrained access.

## Alternative reform approaches

15. We quote further from the PUO paper, with our emphasis added:

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"The WEM reforms will require analysis of what energy and ancillary services are required in various parts of the SWIS, to help inform the timing and nature of network and power system investment in the future. This may also aid **the development of suitable locational pricing signals to provide generators an incentive to build generating facilities in the parts of the network where it is most valued.**"

16. On this basis, we suggest that a potential alternative solution would be to simply confiscate hoarded network capacity from Synergy and to provide generation-location cost signals in the Access Arrangement.

## Confidentiality

17. We quote from the PUO paper:

Footnote 2: "Due to the commercially sensitive nature of the findings, the Public Utilities Office cannot provide open access to the modelling. The detailed results of the modelling relevant to each market participant will be shared with individual market participants during one-on-one meetings with the Public Utilities Office."

" Generators that currently have some sort of (unconstrained) physical firm access right would receive a financial payment to cover reasonable losses resulting from constrained dispatch. This would be negotiated individually with affected parties."

18. We note that AEMO publishes generator production data by Trading Interval since market commencement, from which a generator DSOC can be deduced for all generators with the exception of hoarded capacity that isn't used. Constrained operation can also be discerned. Indeed, this in combination with outage transparency is central to the cost reductions that have occurred since the introduction of the Balancing market in 2014.
19. We suggest that the simplest, most cost effective tool for cost reductions is basic transparency. We note that the former IMO attempted to switch the ethos from "confidential unless right to know" to "public unless right to conceal". However, on replacing the IMO, AEMO revoked this initiative.
20. With acknowledgement and apologies to Dr Samuel Johnson, we suggest that confidentiality in respect to these publicly owned assets is the first refuge of the scoundrel.

## Contact

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