



INFORMATION

Proposed regulatory framework for the Pilbara electricity networks

Publication of Design Consultation Paper

The Public Utilities Office has published a Design Consultation Paper that outlines a proposed new framework for third party network access and system operations in the North West Interconnected System (NWIS).

Context

The Public Utilities Office has published a design consultation paper outlining a proposed framework for electricity networks in the NWIS. Growing pains in the electricity sector have highlighted the need for changes to address current issues and build a foundation for future expansion in this economically important region of Western Australia.

The design consultation paper covers two distinct but interlinked reforms:

- a fit-for-purpose light handed regulatory regime designed to facilitate third party access to designated electricity network assets, with the capability to cater for expanded application via an opt-in provision or coverage application; and
- the establishment of an Independent System Operator (ISO) designed to formalise this function and enhance network security, manage ancillary services and facilitate overall network coordination and planning.

The proposed framework has been developed for the purposes of consultation. Interested parties are encouraged to review the proposed design elements to establish a light handed regulatory regime and arrangements for a formalised ISO.

Background

Expansion of the resources industry in the Pilbara has resulted in a maturation of the supporting electricity sector. The number of participants in the emerging electricity market in the Pilbara is growing, resulting in greater complexity and demand for access to network infrastructure.

The failure of attempts to resolve the demands through pure commercial means has highlighted problems in relation to third party access and interconnected system operations that are dealt with by regulatory frameworks in other electricity jurisdictions such as the South West Interconnected System and the National Electricity Market.

The characteristics of the NWIS are such that existing frameworks are not appropriate, are likely to impose unwarranted costs and introduce inefficiencies. As a result, the Government is looking to introduce more 'fit for purpose' arrangements for both network access and system operations.

Overview of the reforms in Design Consultation Paper

Light handed regulation access framework

The proposed framework the light handed regime includes:

- a framework for access pricing, including **pricing principles** to guide price setting and that the arbitrator must have regard to when determining access disputes;
- a process for dealing with **connection and access** requests;
- requirements for the **publication and exchange of information** to facilitate timely and effective commercial negotiations in relation to access to covered networks;
- a **negotiation framework**; and
- a commercially-orientated **binding arbitration** process to resolve access disputes in a cost-effective and efficient manner.

It is proposed that the light handed access regime will initially be “deemed” to apply to the electricity networks of **Horizon Power** in **Karratha** and **Port Hedland** and **Alinta DEWAP** in **Port Hedland**. Thereafter, the other network owners may “opt-in” to the regime or an access seeker may **apply for coverage** consistent with the existing process available under the *Electricity Networks Access Code 2004*.

Independent System Operator

The proposed ISO framework includes:

- a set of **guiding objectives and operating principles** to assist with the development of the other elements of the framework;
- the extent of the **networks covered** by the ISO, noting that historically there has been explicit reluctance of network owners and operators to cede any degree of operational control over their respective networks to another party;
- the **functions and powers** that the ISO could undertake, including identifying the information and powers it will require to successfully undertake its role and responsibilities;
- the **structure** of the ISO and governance of the ISO; and
- **transitional** matters, noting that the recommended approach allows for the ISO to progressively assume a broader role if it is determined that there are net benefits in doing so.

Importantly, the scope of functions proposed for the ISO largely formalises what already occurs today on a less formal basis between participants. It is proposed that the **Australian Energy Market Operator** be asked to take on the role of ISO for the NWIS. Implementation and operating costs will be subject to a detailed due diligence process and the scrutiny of the Economic Regulation Authority.

Next steps

Public feedback is sought on the design consultation paper, with submissions due by 2:00pm (WST) on 9 March 2018. A Final Design Report will be presented to Government in March 2018.

Timeframes for the reform elements

Legislative changes to be prepared and presented in 2018 with implementation proposed for 2019.

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